



THE MEDICAL COLLEGE OF WISCONSIN, INC.

(E.I.N.: 390806261)

Audit Reports in Accordance with
Government Auditing Standards and
Uniform Guidance

June 30, 2022

(With Independent Auditors' Report Thereon)

THE MEDICAL COLLEGE OF WISCONSIN, INC.

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Independent Auditors' Report

The Board of Trustees
The Medical College of Wisconsin, Inc.:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of The Medical College of Wisconsin, Inc. (MCW), which comprise consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of MCW as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of MCW and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about MCW's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MCW's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about MCW's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary schedule of financial responsibility data as of and for the year ended June 30, 2022 is presented for purposes of additional analysis as required by the U.S. Department of Education, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of financial responsibility data is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2022 on our consideration of MCW's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MCW's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCW's internal control over financial reporting and compliance.

KPMG LLP

Milwaukee, Wisconsin
November 22, 2022

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Financial Position

June 30, 2022 and 2021

(In thousands)

Assets	2022	2021
Cash and cash equivalents	\$ 148,631	189,599
Deposits with bond trustees	170,277	3,687
Investments, at fair value	1,925,663	2,257,013
Receivables:		
Patient accounts	61,379	57,964
Other accounts, net	95,155	48,756
Grants and contracts, net	36,435	35,558
Contributions, net	57,234	50,904
Student loans, net	20,858	19,310
Notes receivable from Children's Specialty Group	—	30,561
Total receivables	271,061	243,053
Prepaid expenses and other assets	50,973	93,959
Right-of-use assets-operating leases	62,322	81,105
Land, buildings, and equipment, net	282,623	283,921
Total assets	\$ 2,911,550	3,152,337
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 70,172	142,986
Accrued payroll and related liabilities	173,406	189,542
Deferred revenue	61,739	30,461
Estimated liability for unpaid professional liability claims	9,340	9,042
Long-term operating lease obligations	68,845	87,816
Long-term debt	488,747	313,683
Interest rate swap	7,449	15,338
Other liabilities	12,893	9,981
Total liabilities	892,591	798,849
Net assets:		
Without donor restrictions	1,243,304	1,459,279
With donor restrictions	775,655	894,209
Total net assets	2,018,959	2,353,488
Total liabilities and net assets	\$ 2,911,550	3,152,337

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	2022	2021
Net assets without donor restrictions:		
Revenue:		
Patient services	\$ 489,626	463,639
Children's Specialty Group contract fees	210,561	246,220
Clinical services contract fees	95,208	90,815
Affiliate hospital contracts	220,347	147,840
Children's Research Institute contract fees	8,921	8,055
Grants and contracts	174,117	151,296
Facilities and administrative cost recovery on grants and contracts	43,682	37,880
Coronavirus relief funds	4,690	38,782
Tuition and fees	63,782	62,763
Endowment spendable income	16,290	1,598
Other investment income	7,914	6,969
Contributions	6,794	11,924
State of Wisconsin appropriation	5,480	5,685
Other	12,932	6,941
Total revenue	1,360,344	1,280,407
Net assets released from donor restrictions	37,352	32,581
Total revenue and net assets released from donor restrictions	1,397,696	1,312,988
Expense:		
Faculty salaries	544,746	523,433
Staff salaries	344,354	315,933
Fringe benefits	172,289	159,662
Services, supplies, and other	167,754	138,418
Rent and occupancy	38,880	44,759
Subcontracts	43,483	41,627
Depreciation and amortization	35,175	35,343
Interest on indebtedness	10,477	10,692
Total expense	1,357,158	1,269,867
Revenue and net assets released from donor restrictions in excess of expense before gains and losses	40,538	43,121
Gains and losses:		
Realized gain on investments, net	146,416	9,439
Unrealized (loss) gain on investments, net	(394,690)	284,137
Endowment (loss) income net of spendable income	(12,505)	3,390
(Loss) gain on extinguishment of debt	(166)	2,749
Change in fair value of interest rate swap	7,889	5,216
Other losses, net	(3,457)	(1,223)
(Losses) gains, net	(256,513)	303,708
(Decrease) increase in net assets without donor restrictions	(215,975)	346,829

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Net assets with donor restrictions:		
Contributions	\$ 29,747	26,947
Investment income, net	7,484	4,274
Realized gain on investments, net	65,612	22,035
Unrealized (loss) gain on investments, net	(183,708)	170,721
Net assets released from donor restrictions	(37,352)	(32,581)
Change in fair value of charitable trusts	(337)	706
	<u>(118,554)</u>	<u>192,102</u>
(Decrease) increase in net assets with donor restrictions		
	(334,529)	538,931
(Decrease) increase in net assets		
Net assets at beginning of year	<u>2,353,488</u>	<u>1,814,557</u>
Net assets at end of year	<u>\$ 2,018,959</u>	<u>2,353,488</u>

See accompanying notes to consolidated financial statements.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2022 and 2021

(In thousands)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (334,529)	538,931
Adjustments to reconcile change in net assets to cash flow (used in) provided by operations:		
Depreciation and amortization	35,175	35,343
Contributions restricted for long-term investment	(16,891)	(14,742)
(Gain) loss on sale of land, buildings, and equipment	(579)	525
Loss (gain) on extinguishment of debt	166	(2,749)
Gain on investments in joint ventures, net	(4,055)	(6,420)
Realized and unrealized loss (gain) on investments, net	366,370	(486,332)
Change in fair value of interest rate swap	(7,889)	(5,216)
Increase in receivables	(28,008)	(13,832)
Increase in prepaid expenses and other assets	(2,045)	(2,029)
Increase (decrease) in beneficial interest in charitable trusts	402	(662)
(Decrease) increase in accounts payable and accrued payroll and related liabilities	(77,500)	59,989
Increase in deferred revenue	31,278	9,820
Increase in estimated liability for unpaid professional liability claims	298	111
Increase (decrease) in refundable advance for U.S. government-sponsored loan funds	2,503	(837)
Payments on operating leases	(9,854)	(12,195)
Increase (decrease) in other liabilities	16	(142)
Net cash (used in) provided by operating activities	<u>(45,142)</u>	<u>99,563</u>
Cash flows from investing activities:		
Purchases of marketable securities	(1,654,411)	(435,339)
Proceeds from sales and maturities of marketable investments	1,583,233	340,809
Purchases of non-marketable securities	(799,544)	(132,956)
Proceeds from sales and maturities of non-marketable investments	833,920	217,405
Purchases of deposits with bond trustees	(381,665)	(5,413)
Proceeds from sales of deposits with bond trustees	215,075	10,564
Capital expenditures	(33,360)	(21,372)
Proceeds from sale of land, buildings, and equipment	735	73
Capital contributions to investments in joint ventures	(1,098)	(2,126)
Distributions from investments in joint ventures	48,411	5,714
Net cash used in investing activities	<u>(188,704)</u>	<u>(22,641)</u>
Cash flows from financing activities:		
Restricted contributions and investment income	16,891	14,742
Proceeds from long-term debt	193,207	—
Payments of debt issuance costs	(1,535)	—
Repayments of long-term debt	(15,670)	(10,293)
Extinguishment of debt	(15)	—
Net cash provided by financing activities	<u>192,878</u>	<u>4,449</u>
Net (decrease) increase in cash and cash equivalents	<u>(40,968)</u>	<u>81,371</u>
Cash and cash equivalents at beginning of year	<u>189,599</u>	<u>108,228</u>
Cash and cash equivalents at end of year	<u>\$ 148,631</u>	<u>189,599</u>
Supplemental data:		
Cash paid for interest (net of amounts capitalized of \$2,627 and \$179 in 2022 and 2021, respectively)	\$ 10,752	11,249
Noncash acquisition of right-of-use assets in exchange for long-term lease obligations	721	3,293
Noncash change in receivable from Children's Specialty Group	—	2,429

See accompanying notes to consolidated financial statements.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

(1) Organization

The Medical College of Wisconsin, Inc. (MCW) is a private, freestanding health science university comprised of a school of medicine, a school of biomedical sciences and a school of pharmacy. The medical and biomedical sciences schools are comprised of 7 basic science departments, 21 clinical departments, and 12 centers and institutes, and offer medical and graduate degrees. The school of pharmacy focuses on high-end, consultative care, particularly for acute, primary and preventative needs and offers a doctorate of pharmacy degree. Medical education activities are performed at or near MCW's main campus in Milwaukee, Wisconsin or at regional campuses located in Green Bay and central Wisconsin. Pharmacy education activities are performed at or near MCW's main campus in Milwaukee, Wisconsin.

MCW performs research and maintains multi-specialty clinical programs in which faculty and staff physicians, advanced practice providers and allied health professionals (medical professionals) provide medical care. MCW also has affiliations with a number of hospitals in which MCW's medical professionals provide services to patients, education to medical students, and training to residents (graduate medical education). As of June 30, 2022, MCW's Medical College Physicians Practice Plan had 602 practicing faculty and staff physicians, 529 practicing advanced practice providers and 33 allied health professionals.

The consolidated financial statements include the accounts of the various academic and administrative divisions and the Professional Liability Insurance Program. The Professional Liability Insurance Program was created as a grantor trust to self-insure risks related to medical malpractice liability. All significant intercompany balances and transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting. The statements follow U.S. generally accepted accounting principles (U.S. GAAP) applicable to the not-for-profit industry, which are included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

MCW prepares its consolidated financial statements to focus on the organization as a whole and to present net assets and revenues, expenses, gains, and losses classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or by actions of MCW to fulfill the donor restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that the resources be maintained in perpetuity. Donor-imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions. The MCW Board of Trustees has designated a portion of net assets without donor restrictions as funds designated to function as endowments (funds functioning as endowments).

Revenues are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions occur when the donor-stipulated purpose has been fulfilled, the funds have been appropriated in accordance with the MCW Endowment Fund spending policy, or the stipulated time period has elapsed, and are reported as net assets released from donor restrictions.

(b) Patient Services Revenue and Patient Accounts Receivable

MCW's Medical College Physicians Practice Plan sets forth the provisions under which medical professionals provide professional services to patients and provides for the allocation of all fees generated from such services. MCW medical professionals provide services to patients under agreements MCW has with third-party payors, patients, and others. The revenue related to patient services is recorded as patient services revenue as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. As required in ASC 606, *Revenue from Contracts with Customers*, revenue is recognized at the time of transfer of control of promised goods and services in the amount that reflects the consideration an entity expects to receive in exchange for those goods and services.

The transaction price of performance obligations is based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to self-pay patients in accordance with policies or implicit price concessions provided to self-pay patients. Estimates of contractual adjustments and discounts are based on contractual agreements, discount policies and historical experience. The estimate of implicit price concessions is based on historical collection experience with self-pay patients. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient services revenue in the period of the change.

Patient accounts receivable represent an estimate of net realizable amounts from third-party payors, self-pay patients, and others for unpaid professional fees for patient services. The estimate is based upon contract terms, discount policies, and historical payment experience.

(c) Grants and Contracts Revenue and Deferred Revenue

Grant and contract awards are recognized as revenue in the period in which expenses are incurred for cost-reimbursed agreements. Amounts received under these grants and contracts but not spent are recorded as deferred revenue. Other contract revenue is recognized as revenue in the period in which it is earned.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

(d) Contributions Revenue and Contributions Receivable, Net

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions that represent a barrier are overcome and MCW is entitled to the assets promised. Contributions of assets other than cash are recorded at estimated fair value at the date of the gift. Contributions to be received after one year are discounted using a discount rate consistent with the general principles of present value measurement at the time of the gift. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectable contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of the fund-raising activity.

Contributions that impose restrictions that are met in the same year as the contributions are received are included in revenues of net assets without donor restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as an increase in net assets with donor restrictions until the long-lived assets are placed into service.

(e) Revenue and Net Assets Released from Donor Restrictions in Excess of Expense

Revenue in excess of expense in the consolidated statements of operations and changes in net assets reflect all transactions increasing or decreasing net assets without donor restrictions except those gains and losses that are ancillary to the core operations of MCW.

(f) Split Interest Agreements with Donors

MCW's split interest agreements with donors consist of irrevocable charitable gift annuities and charitable trusts. Contribution revenue for charitable gift annuities is recognized at the date annuity agreements are established for the amount of the assets less the amount of the present value of the estimated future payments to be made to the donors at the time of the gift. Charitable gift annuity agreements are administered by a third-party trustee that holds the assets and makes required future payments to the donors until termination. The present value of the estimated future payments are included in contributions receivable. At termination of each annuity, the remaining assets will be distributed to MCW.

MCW is the beneficiary of several charitable trusts (the Trusts), including charitable remainder trusts, charitable lead trusts and charitable perpetual trusts. The Trusts consist of funds invested and administered outside of MCW in which MCW has the irrevocable right to receive a portion of the Trusts' assets in accordance with the Trusts' agreements. The fair value of MCW's beneficial interest in the Trusts is included in prepaid expenses and other assets and is accounted for as net assets with donor restrictions on the consolidated statements of financial position. The adjustments to the Trusts' fair values are recognized as a change in net assets with donor restrictions in the consolidated statements of operations and changes in net assets.

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Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

(g) Unreimbursed and Partially Reimbursed Care

MCW has a policy of providing health care services without charge, or at amounts less than established rates, to patients who are unable to pay and who meet certain eligibility criteria established in MCW's community care policy. Because MCW does not pursue collection of amounts determined to qualify as community care, the amounts are not reported as revenue. The estimated direct and indirect costs incurred by MCW to provide services under MCW's community care policy during 2022 and 2021 were \$6,127 and \$3,203, respectively. The estimated cost of these community care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to these patients for the period. Gross charges associated with providing care to these patients includes only the related charges for those patients who are financially unable to pay and qualify under MCW's community care policy and who do not otherwise qualify for reimbursement from a governmental program.

MCW is a supplier under the Medicare and Title XIX Wisconsin Medical Assistance (Medicaid) programs. Under these programs, MCW is legally bound to accept the amount determined by the Medicare carrier or the State of Wisconsin as payment in full for each patient's charges. Amounts received by MCW from the Medicare and Medicaid programs are subject to audit by governmental agencies.

(h) Cash and Cash Equivalents

Cash and cash equivalents include bank depository account balances, money market funds and other short-term, highly liquid investments not held by external investment managers or trustees. Short-term, highly liquid investments held by external investment managers or trustees are classified as investments or deposits with bond trustees on the consolidated statements of financial position. Cash and cash equivalents included as part of the investment portfolio and deposits with bond trustees are treated as investments for cash flow purposes.

MCW maintains its cash in bank deposit accounts in excess of federally insured limits. MCW monitors cash balances along with the financial condition of the financial institutions to minimize this potential risk.

Total cash and cash equivalents reported on the consolidated statements of financial position includes \$4,912 and \$2,961 as of June 30, 2022 and 2021, respectively, of cash and cash equivalents restricted for the purpose of providing loans to students (see note 2(k)).

(i) Investments

Investments are comprised of money market funds held by external investment managers, marketable debt and equity securities, bond and equity mutual funds, commingled bond and equity funds, hedge funds, private assets, guaranteed investment contracts, and accrued interest and dividends thereon and are reported at fair value. Realized gain and loss on the sale of investments are calculated on the basis of specific identification of the securities sold. Investment management fees and service charges are netted against investment income for financial reporting purposes.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

Other investment income included in revenue consists of income on investments without donor restriction. Endowment spendable income included in revenue consists of the amount expended from net appreciation appropriated for expenditure (spendable income) from pooled endowment funds. The difference between the net appreciation and the amount expended is reported as a nonoperating gain or loss for funds functioning as endowments and as a change in net assets with donor restrictions for donor-restricted endowment funds.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported on the consolidated statements of financial position and in the consolidated statements of operations and changes in net assets.

(j) Deposits with Bond Trustees

Deposits held by bond trustees consist of investments restricted for debt service and future capital expenditures. These funds are invested in highly liquid securities. Project fund proceeds are not released to MCW until expenditures related to the specific purpose of the bond trust indenture are incurred.

(k) Student Loans Receivable, Net

MCW receives awards to make loans to eligible students under certain federal student loan programs. The Department of Education's Direct Loan Program consists of federally guaranteed loans directly issued to the students of MCW. MCW is only responsible for the performance of certain administrative duties with respect to the Direct Loan Program and therefore these loans are not included in MCW's consolidated financial statements. All students are eligible for the Direct Loan Program. The Perkins, Primary Care, and Health Professions Student Loan Programs are administered directly by MCW and the balances and transactions relating to these programs are included in MCW's consolidated financial statements. Under the Perkins Loan Program Extension Act of 2015, no new Perkins Loans were made to medical students after June 30, 2017. Medical students are eligible for the Primary Care Student Loan Program and pharmacy students are eligible for the Health Professions Student Loan Program.

(l) Right-of-Use Assets and Long-term Lease Obligations

MCW is a lessee in several noncancelable operating leases, primarily for land and buildings for clinical, academic, and administrative purposes (see note 13). If an arrangement is a lease or contains a lease at contract inception, a right-of-use (ROU) asset and a long-term lease obligation are recorded at the commencement of the lease and are included in the consolidated statements of financial position. MCW has elected not to recognize ROU assets and long-term lease obligations that have a term of one year or less. MCW recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

For operating leases, the long-term lease obligation is initially and subsequently measured at the present value of the unpaid lease payments and is included in the long-term operating lease obligations on the consolidated statements of financial position. Subsequent measurement of the long-term lease obligation is at amortized cost using the effective interest rate method. The present value of the

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

(In thousands)

long-term lease obligation is determined using a discount rate equal to the interest rate implicit in the lease or, if unavailable, MCW's incremental borrowing rate at commencement of the lease. The lease term includes all noncancelable periods of the lease plus any additional periods covered by an option to extend that are reasonably certain to be executed by MCW or are controlled by the lessor.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred, less any lease incentives received. For operating leases, subsequent measurement of the ROU asset is measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus any prepaid lease payments, less the unamortized balance of lease incentives received. Lease payments are recognized as rent and occupancy expense in the consolidated statements of operations and changes in net assets on a straight-line basis.

(m) Land, Buildings, and Equipment, Net

Investments in land, buildings, and equipment (including software licenses) are recorded at cost if purchased or at appraised value if donated. These assets are depreciated using the straight-line method over their estimated useful lives. The net interest cost incurred on borrowed funds during the period of major construction or renovation is capitalized as a component of the cost of acquiring those assets. Capitalized interest is included as part of the cost of construction and renovation projects and is amortized over the estimated useful life of the related assets.

When MCW commits to the disposal or abandonment of land, buildings, and equipment, the assets are written off or down to the net realizable value.

(n) Impairment of Long-lived Assets

MCW periodically assesses its ability to recover long-lived assets (including land, buildings, equipment, and ROU assets) when there are indications of potential impairment based on estimated undiscounted future cash flows. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset. When such assets are determined to be impaired, the assets are written off or down to the net realizable value. Management believes MCW's long-lived assets are not impaired as of June 30, 2022 and 2021.

(o) Refundable Advances for U.S. Government-Sponsored Loan Funds

Funds provided by the U.S. government under the Federal Perkins Student Loan Program, Federal Primary Care Loan Program, and Federal Health Professions Student Loan Program are loaned to qualified students. Receipts of principal and interest payments through the Federal Primary Care Loan Program are used to finance future loans to students. Under the Perkins Loan Program Extension Act of 2015, receipts of principal and interest payments through the Federal Perkins Student Loan Program are retained until the government issues Excess Cash Return notices. MCW received a notice for a return of excess funds and paid the government \$648 and \$847 in 2022 and 2021, respectively. Funds provided by the U.S. government and earnings thereon are ultimately refundable to the government and, therefore, are presented as a liability and are included in other liabilities on the consolidated statements of financial position.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

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(In thousands)

(p) Long-term Debt – Deferred Costs

Costs incurred related to the issuance of long-term debt and the original issue discount or premium included in long-term debt are deferred and amortized as interest expense over the term of the debt using the effective interest rate method.

(q) Derivative Instruments

MCW entered into an interest rate-related derivative instrument (interest rate swap) to manage interest rate exposure on its variable rate revenue bonds. The fair value of the interest rate swap is reported on the consolidated statements of financial position. MCW does not apply hedge accounting to derivative instruments, and therefore, any change in the interest rate swap value is recognized as a gain or loss in the consolidated statements of operations and changes in net assets. The net cash received or paid under the terms of the interest rate swap agreement over its term is recorded as a component of interest expense.

(r) Income Taxes

MCW has received a determination letter from the IRS indicating that it is a tax-exempt organization as provided in Section 501(c)(3) of the Internal Revenue Code, and it is exempt from federal and state income taxes, except for taxes pertaining to unrelated business income and certain provisions of the Tax Cuts and Jobs Act of 2017.

MCW applies the standards for accounting for uncertainty in income taxes contained in FASB ASC Topic 740, *Income Taxes* (ASC Topic 740). ASC Topic 740 addresses the determination of how tax benefits resulting from tax positions taken or expected to be taken on a tax return should be recorded in the consolidated financial statements. Under ASC Topic 740, the tax benefit from an uncertain tax position is recognized if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. MCW does not have a liability for unrecognized tax benefits as of June 30, 2022 and 2021.

(s) Use of Estimates

The presentation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates. Changes in prior year estimates are accounted for within the consolidated statements of operations and changes in net assets in the current year.

(t) Reclassification

Certain amounts in the 2021 financial statements have been reclassified to conform to the 2022 presentation.

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(3) Related-Party Transactions

MCW is located on the Milwaukee Regional Medical Center Campus, along with Froedtert Health, Inc. (Froedtert Memorial Lutheran Hospital, Inc. and related entities collectively referred to as Froedtert), Children's Hospital and Health System, Inc. (Children's Hospital of Wisconsin, Inc. and related entities collectively referred to as Children's Wisconsin), and several other health care providers. The following is a summary of the transactions with these and other related parties.

(a) *Froedtert Health, Inc.*

MCW contracts with Froedtert to receive payment for services performed by MCW medical professionals at hospital and clinic sites. During 2022 and 2021, MCW recognized affiliate hospital contract revenue of approximately \$152,293 and \$127,912, respectively, for clinical management, graduate medical education, and other program support services provided to Froedtert. The outstanding balance of the accounts receivable from Froedtert at June 30, 2022 and 2021 is \$47,269 and \$23,860, respectively.

Many medical professionals render professional medical services to patients at Froedtert. MCW leases space from Froedtert for clinical services, administrative and research activities. Rent paid to Froedtert by MCW is \$4,931 and \$4,773 in 2022 and 2021, respectively. Other direct costs for equipment, supplies, and general services related to professional medical services at Froedtert are incurred by MCW directly. MCW also leases clinical space to Froedtert under operating leases. Rental income received from Froedtert by MCW is \$3,356 and \$3,538 in 2022 and 2021, respectively.

On January 30, 2013, MCW entered into a definitive agreement with Froedtert to form a joint clinical practice group effective July 1, 2013 named Froedtert & The Medical College of Wisconsin Community Physicians (FH-MCW Community Physicians). FH-MCW Community Physicians combines many of the community-based practices of Froedtert and MCW's Medical College Physicians. MCW has a 50% interest in the governance of the entity, but Froedtert is the sole financial member. MCW receives payments for MCW medical professionals leased to and performing services on behalf of FH-MCW Community Physicians. Additionally, FH-MCW Community Physicians contracts with MCW to perform billing services for its clinic-based sites. During 2022 and 2021, MCW recognized \$87,186 and \$79,394, respectively, of FH-MCW Community Physician contract fees related to these services. The outstanding balance of accounts receivable from FH-MCW Community Physicians as of June 30, 2022 and 2021 is \$16,946 and \$8,625, respectively. MCW also collects patient services revenue for certain specialty services provided by FH-MCW Community Physicians providers performing services on behalf of MCW. These collections, net of assessments, are remitted to FH-MCW Community Physicians and in 2022 and 2021, \$13,565 and \$11,086, respectively, was recorded in services, supplies, and other expense. The outstanding balance of accounts payable to FH-MCW Community Physicians as of June 30, 2022 and 2021 is \$2,235 and \$1,913, respectively.

(b) *Children's Hospital and Health System, Inc.*

MCW entered into an Operations Agreement with Children's Wisconsin to form Children's Specialty Group, Inc. (CSG), a provider of pediatric specialty health care services, on July 1, 2000. MCW and Children's Wisconsin are the two members of CSG (see note 4(a)).

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Effective July 1, 2021, MCW restructured its longstanding academic and clinical affiliation with Children's Wisconsin. The CSG articles of incorporation and bylaws have been modified to reflect the new governance structure where MCW and Children's Wisconsin remain as the two members. In addition, Children's Wisconsin remains MCW's primary pediatric teaching affiliate.

MCW received a one-time mission support payment of \$30,000 from Children's Wisconsin in 2022 that was recorded as deferred revenue on the consolidated statements of financial position. The restructured definitive agreements require MCW to repay the one-time mission support payment if the definitive agreements are terminated due to MCW's breach. The amount of the repayment is prorated over the initial 10 years of the agreement. The one-time mission support is being released to revenue over the life of the prepayment obligation. In 2022, \$3,000 of the one-time mission support was recorded as affiliate hospital contract revenue on the consolidated statements of operations and changes in net assets.

Under the definitive agreements, Children's Wisconsin provides MCW with fixed and variable mission support. During 2022, fixed and variable mission support of \$40,390 was recorded as affiliate hospital contract revenue on the consolidated statements of operations and changes in net assets.

MCW retains employment of the pediatric medical professionals that it employed prior to July 1, 2021 in the pediatric practice plan and continues to lease the pediatric medical professionals exclusively to CSG for the professional services performed on behalf CSG. Additionally, CSG has contracted with MCW to perform patient billing services for professional services performed by its leased medical professionals. The outstanding balance of accounts payable to CSG for collections on patient billing services as of June 30, 2022 is \$17,762. MCW also leases the services of faculty and staff to CSG for clinical activities and clinical administration. CSG also supports pediatric research and academic activities. In 2022, MCW recognized \$199,290 of CSG contract fees on the consolidated statements of operations and changes in net assets related to these services.

During a transition period, CSG has contracted with MCW to provide certain administrative and financial services. As part of this agreement, MCW incurs certain services, supplies and other expenses on behalf of CSG. These expenses are reimbursed by CSG and the related revenue is recorded as CSG contract fees on the consolidated statements of operations and changes in net assets. In 2022, MCW recognized \$11,271 of CSG contract fees related to these services. MCW provides invoicing and collection services for CSG related to its affiliate hospital contracts. The outstanding balance of accounts payable to CSG for collections on CSG affiliate hospital contracts as of June 30, 2022 is \$746.

The outstanding balance of the accounts receivable from Children's Wisconsin at June 30, 2022 and 2021 is \$21,811 and \$1,505, respectively.

Prior to the new definitive agreements, MCW and CSG had entered into a Finance Agreement and an Operations Agreement. Under the Finance Agreement, MCW received a finance charge on its notes receivable from CSG. Under the Operations Agreement, MCW leased faculty and staff to CSG and incurred services, supplies and other expenses on behalf of CSG for a fee. In addition, the Operation Agreement provided MCW an assessment on CSG's pediatric patient collections. In fiscal 2021, MCW recognized \$246,220 of CSG contract fees related to these agreements. Additionally, MCW leased

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space from Children's Wisconsin on behalf of CSG for certain administrative purposes. Rent paid to Children's Wisconsin by MCW was \$4,533 in 2021.

(c) Other Related Parties

MCW is a member of the Milwaukee Regional Medical Center (MRMC), a consortium of six health care institutions located on the Milwaukee Regional Medical Center Campus (MRMC Campus). On March 31, 2016, MCW entered into an agreement with the Milwaukee Regional Medical Center Thermal Services, Inc. (MRMC Thermal), a subsidiary of MRMC, to obtain all of MCW's chilled water and steam service from MRMC Thermal for a period of 30 years. Under the agreement, MCW must make specified minimum payments regardless of the amount of actual chilled water and steam service used. The minimum payment is based on MRMC Thermal's fixed costs associated with owning, operating and maintaining the utility plant and is updated periodically. In 2022 and 2021, MCW purchased \$7,705 and \$7,211, respectively, of chilled water and steam service from MRMC Thermal.

On April 4, 2019, MCW provided a financial guarantee to a financial institution for a borrowing of MRMC which was amended on December 1, 2021. The guarantee requires MCW to reimburse the financial institution if MRMC fails to make principal or interest payments when due in accordance with the terms of their borrowing. The maximum amount payable under this guarantee is \$11,670. As of June 30, 2022, it is not probable that any amount will be payable under the arrangement and a liability is not recorded within the consolidated statements of financial position. MCW's obligation under the guarantee expired on July 14, 2022 when the MRMC borrowing was paid in full and the credit facility was cancelled.

Members of the MCW Board of Trustees may serve in management roles for corporations that provide goods or services to MCW, causing these corporations to be related parties. In 2022 and 2021, MCW purchased from these related parties \$8,318 and \$5,203, respectively, of subcontract and contractual fees, \$282 and \$540, respectively, of building services equipment and \$377 and \$0, respectively, of investment management fees. Significant purchases of goods and services from related parties are reviewed to ensure such transactions are competitively priced as compared to other goods and services available in the marketplace.

(4) Joint Ventures

MCW is a member of several joint ventures where MCW owns 50% or less of the joint venture and does not control or significantly influence the joint venture's operating and financial policies. MCW accounts for its investment in these joint ventures using the equity method of accounting.

(a) CSG

CSG is a joint venture with Children's Wisconsin. Each member has a 50% ownership interest. The purpose of the joint venture is to provide pediatric specialty health care services that contribute to the members' shared missions. MCW's investment in CSG of \$45,014 as of June 30, 2021 is included in prepaid expenses and other assets on the consolidated statements of financial position. As of July 1, 2021, CSG distributed \$45,014 to MCW and MCW no longer holds an equity investment in the joint venture.

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(b) Other Joint Ventures

MCW's investment in other joint ventures accounted for using the equity method of accounting include:

	Ownership percentage	
	2022	2021
APM Wisconsin MSO LLC	49.0 %	49.0 %
Children's Health Network of Wisconsin, LLC	50.0	50.0
Drexel Town Square Surgery Center, LLC	49.0	49.0
FMLH MCW Real Estate Ventures, LLC	50.0	50.0
Fresenius Medical Care Midwest Dialysis, LLC	10.0	10.0
Froedtert & The Medical College of Wisconsin ACO, LLC	50.0	50.0
Froedtert & The Medical College of Wisconsin Network, LLC	50.0	50.0
Froedtert Surgery Center, LLC	49.0	49.0
MRMC Land Bank, LLC	33.3	33.3
Wisconsin Renal Care Group, LLC	10.0	10.0

MCW received capital distributions from other joint ventures of \$3,397 and \$5,714 as of June 30, 2022 and 2021, respectively. MCW made capital contributions to other joint ventures of \$1,098 and \$2,126 in 2022 and 2021. MCW's share of gains and losses in other joint ventures for 2022 and 2021 of \$4,055 and \$3,009, respectively, is recorded in other revenue. MCW's investment in other joint ventures is approximately \$29,591 and \$27,835 as of June 30, 2022 and 2021, respectively, and is included in prepaid expenses and other assets on the consolidated statements of financial position.

(5) Investments

The fair value of investments as of June 30, 2022 and 2021 is summarized below:

	2022	2021
Money market funds	\$ 63,167	67,125
U.S. government obligations	77,520	84,162
Bond and equity mutual funds	376,222	369,394
Commingled bond and equity funds	928,943	1,314,829
Equity securities	25,796	69,703
Hedge funds	237,623	200,806
Private assets	214,224	148,051
Other	2,168	2,943
Total	\$ 1,925,663	2,257,013

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Commingled bond and equity funds are comprised of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities and domestic and foreign equity and equity-like securities.

Hedge funds are comprised of investments in exempted companies which invest in debt and equity securities using a long/short, event-driven, or multi-strategy approach.

Private assets are comprised of ownership interests in limited partnerships. MCW owns less than 10% of each limited partnership.

Other includes accrued investment income, state and municipal bonds, corporate bonds, asset- and mortgage-backed securities and guaranteed investment contracts. Mortgage-backed securities are comprised of widely traded tranches of principal and interest strips in the form of collateralized mortgage obligations and real estate mortgage investment conduits. Asset-backed securities are comprised of principal and interest strips derived from underlying receivables. Guaranteed investment contracts are comprised of fixed annuities issued by insurance companies.

MCW's return on investments as reported in the consolidated financial statements for the years ended June 30, 2022 and 2021 is summarized below:

	Year ended June 30, 2022		
	Without donor restrictions	With donor restrictions	Total
Endowment spendable income	\$ 16,290	2,338	18,628
Endowment investment income required to be reinvested	—	2,998	2,998
Endowment income earned (deficient of) over spendable income under the total return concept	<u>(12,505)</u>	<u>2,008</u>	<u>(10,497)</u>
Interest and dividends, net of fees, on pooled endowments	3,785	7,344	11,129
Other investment income	<u>7,914</u>	<u>140</u>	<u>8,054</u>
Total interest and dividends, net of fees	11,699	7,484	19,183
Realized gain on investments, net	146,416	65,612	212,028
Unrealized loss on investments, net	<u>(394,690)</u>	<u>(183,708)</u>	<u>(578,398)</u>
	<u>\$ (236,575)</u>	<u>(110,612)</u>	<u>(347,187)</u>

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(In thousands)

	Year ended June 30, 2021		
	Without donor restrictions	With donor restrictions	Total
Endowment spendable income	\$ 1,598	1,692	3,290
Endowment investment income required to be reinvested	—	2,809	2,809
Endowment income earned over (deficient of) spendable income under the total return concept	<u>3,390</u>	<u>(328)</u>	<u>3,062</u>
Interest and dividends, net of fees, on pooled endowments	4,988	4,173	9,161
Other investment income	<u>6,969</u>	<u>101</u>	<u>7,070</u>
Total interest and dividends, net of fees	11,957	4,274	16,231
Realized gain on investments, net	9,439	22,035	31,474
Unrealized gain on investments, net	<u>284,137</u>	<u>170,721</u>	<u>454,858</u>
	<u>\$ 305,533</u>	<u>197,030</u>	<u>502,563</u>

Investment management and custodial fees incurred in 2022 and 2021 were \$9,126 and \$10,220, respectively.

(6) Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC Topic 820), establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) that are observable in active markets for identical assets or liabilities that MCW has the ability to access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, where there is little or no market data, requiring MCW to develop its own assumptions of fair value for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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(In thousands)

The following section describes the valuation methodologies used for financial assets and liabilities measured at fair value. The techniques utilized in estimating the fair values are affected by the assumptions. There were no changes in valuation methodologies used for the years ended June 30, 2022 and 2021.

Cash and cash equivalents: The fair value of cash and cash equivalents is based on observable market quotation prices provided by custodial financial institutions at the reporting date.

Deposits with bond trustees: The fair value of the money market funds on deposit with bond trustees is based on observable market quotation prices. The fair value of fixed maturity securities on deposit with bond trustees is based on prices provided by each bond trustee's financial institution using a variety of pricing sources. Each bond trustee's financial institution designates specific pricing services or indices for each sector of the market based on the pricing service's expertise.

Investments: The fair value of investments is based on valuations provided by external investment managers and custodial financial institutions. Valuations of investments in Level 1, which include money market funds, accrued investment income, bond and equity mutual funds, and equity securities, are provided by custodial financial institutions based on observable market quotation prices. Valuations of certain investments in Level 2, which include accrued investment income, U.S. government obligations, state and municipal bonds, corporate bonds, and asset-backed and mortgage-backed securities, are provided by custodial financial institutions based on observable inputs other than quoted prices, such as pricing services or indices. Valuations of investments in Level 3, which are comprised of guaranteed investment contracts with an insurance company, are valued at the contract value which represents the accumulated contributions and interest credited to the contracts, less any withdrawals. Contract value approximates fair value. Investments with valuations classified as Level 1 through 3 are considered marketable securities.

MCW applies the measurement provisions of ASC Topic 820 related to certain investments in funds that do not have readily determinable fair values including private assets, hedge funds, and commingled equity and bond funds. ASC Topic 820 allows MCW to estimate the fair value of an investment using the net asset value per share of the investment as a practical expedient, if that net asset value per share is determined in accordance with ASC Topic 946, *Financial Services-Investment Companies*. Investments in commingled bond and equity funds, hedge funds and private assets with a fair value of \$1,380,790 and \$1,663,686 were estimated using the net asset value per share, as a practical expedient, provided by external investment managers as of June 30, 2022 and 2021, respectively. Investments with fair values using the net asset value per share as a practical expedient are considered non-marketable securities. Changes in market conditions and the economic environment may impact the net asset value of the funds and consequently the fair value of MCW's interest in the funds.

The investment strategy of the commingled bond funds is to achieve favorable income-oriented returns from diversified portfolios of domestic and foreign investment grade or below investment grade public and private issue debt and debt-like securities. The investment strategy of the commingled equity funds is to seek investment results that achieve or exceed major market indices. Derivative instruments may be used in these funds in an attempt to hedge existing long and short positions in order to maximize returns and minimize risk.

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The primary investment objective for the hedge funds is to achieve a higher than average rate of return relative to the level of risk assumed by pursuing trading strategies that are based primarily upon convertible hedging (based on equities, bonds, and related derivative instruments); directional, relative value and event-driven hedging; long/short debt and equity trading; and among others, risk arbitrage.

Private assets include investments in private equity, private credit or private real assets which are investments in limited partnerships that invest in private equity, distressed investments, secured fixed rate or adjustable rate senior loans, unsecured fixed rate or adjustable rate loans, subordinated debt obligations, specialty finance or direct lending, equity securities of U.S. and Canadian companies, oil and gas properties, timberland and real estate, metals and mining, and power plants and renewable energy sources. These investments cannot be redeemed but instead are distributed as the underlying assets are liquidated. The timing of liquidation cannot be reasonably estimated.

Beneficial interest in charitable trusts: The fair value of the beneficial interest in charitable trusts is based on the future contractual payments considering the life expectancy of beneficiaries, discounted to present value.

Deferred compensation: The fair value of the deferred compensation liability is based on the fair value of its underlying investments which are included in the investment values described above, as the deferred compensation liability is fully funded. The deferred compensation liability is included in accrued payroll and related liabilities on the consolidated statements of financial position.

Interest rate swap: The fair value of the interest rate swap is determined using pricing models developed based on the London Interbank Offered Rate (LIBOR) swap rate and other observable and unobservable market data. The value is determined after considering the potential impact of collateralization agreements and is adjusted to reflect the nonperformance risk of both the counterparty and MCW.

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(In thousands)

The following tables present assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2022 and 2021:

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 148,631	148,631	—	—
Deposits with bond trustees	170,277	170,277	—	—
Investments:				
Money market funds	63,167	63,167	—	—
U.S. government obligations	77,520	—	77,520	—
Bond and equity mutual funds	376,222	376,222	—	—
Equity securities	25,796	25,796	—	—
Other	2,168	308	716	1,144
Subtotal	544,873	465,493	78,236	1,144
Investments measured at net asset value	1,380,790	—	—	—
Total investments	1,925,663	—	—	—
Beneficial interest in charitable trusts	5,759	—	—	5,759
Total assets	\$ 2,250,330	784,401	78,236	6,903
Liabilities:				
Deferred compensation	\$ 3,702	2,558	—	1,144
Interest rate swap	7,449	—	—	7,449
Total liabilities	\$ 11,151	2,558	—	8,593

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(In thousands)

Investments measured at net asset value	June 30, 2022			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled bond and equity funds	\$ 928,943	—	Monthly quarterly, annually	4–180 days
Hedge funds	237,623	—	Quarterly, annually	45–90 days
Private assets	214,224	88,810	—	—
Total investments measured at net asset value	<u>\$ 1,380,790</u>			

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	\$ 189,599	189,599	—	—
Deposits with bond trustees	3,687	3,687	—	—
Investments:				
Money market funds	67,125	67,125	—	—
U.S. government obligations	84,162	—	84,162	—
Bond and equity mutual funds	369,394	369,394	—	—
Equity securities	69,703	69,703	—	—
Other	2,943	94	949	1,900
Subtotal	593,327	506,316	85,111	1,900
Investments measured at net asset value	<u>1,663,686</u>	—	—	—
Total investments	2,257,013	—	—	—
Beneficial interest in charitable trusts	6,160	—	—	6,160
Total assets	<u>\$ 2,456,459</u>	<u>699,602</u>	<u>85,111</u>	<u>8,060</u>
Liabilities:				
Deferred compensation	\$ 5,290	3,390	—	1,900
Interest rate swap	15,338	—	—	15,338
Total liabilities	<u>\$ 20,628</u>	<u>3,390</u>	<u>—</u>	<u>17,238</u>

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(In thousands)

Investments measured at net asset value	June 30, 2021			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Commingled bond and equity funds	\$ 1,314,829	—	Monthly quarterly, annually	4–180 days
Hedge funds	200,806	—	Monthly, quarterly, annually	30–180 days
Private assets	148,051	81,042	—	—
Total investments measured at net asset value	\$ <u>1,663,686</u>			

The following tables present MCW's activity for all Level 3 assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs, as defined in ASC Topic 820 for the years ended June 30, 2022 and 2021.

	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2021	\$ 1,900	6,160	15,338	1,900
Purchases	—	—	—	—
Sales	—	—	—	—
Net realized loss	—	(26)	—	—
Net change in unrealized appreciation	(756)	(375)	(7,889)	(756)
Balance as of June 30, 2022	\$ <u>1,144</u>	<u>5,759</u>	<u>7,449</u>	<u>1,144</u>

The amount of total losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2022

\$	(756)	(401)	(7,889)	(756)
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(In thousands)

	Assets		Liabilities	
	Guaranteed investment contracts	Beneficial interest in charitable trusts	Interest rate swap	Deferred compensation
Balance as of July 1, 2020	\$ 1,974	5,499	20,554	1,974
Purchases	—	—	—	—
Sales	—	—	—	—
Net realized gain	—	(33)	—	—
Net change in unrealized appreciation	(74)	694	(5,216)	(74)
Balance as of June 30, 2021	\$ <u>1,900</u>	<u>6,160</u>	<u>15,338</u>	<u>1,900</u>
The amount of total losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held as of June 30, 2021	\$ (74)	(33)	(5,216)	(74)

There were no transfers in or out of Level 3 for the years ended June 30, 2022 and 2021.

(7) Endowment Net Asset Classification

MCW's endowment is comprised of approximately 580 individual funds established for the following purposes:

- Provide funding of activities that support the missions of education, research, patient care and community engagement.
- Provide a revenue source for endowed purposes such as scholarships, student loans, professorships, and program enhancements.
- Provide a revenue source for capital requirements.
- Provide a revenue source for initiatives of the Advancing a Healthier Wisconsin Program.
- Provide a revenue source for programs, activities, contingencies and other purposes as the Board of Trustees may consider appropriate.

The endowment includes both donor-restricted endowment funds and funds functioning as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds functioning as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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(In thousands)

(a) Interpretation of Relevant Law

The MCW Board of Trustees has interpreted the Wisconsin enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing MCW to appropriate for expenditure or accumulate so much of an endowment fund as MCW determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure in accordance with the MCW Endowment Fund Spending Policy adopted by the Board of Trustees. As a result of this interpretation, the original gift value of a donor-restricted endowment fund is classified as donor-restricted in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as donor-restricted until those amounts are appropriated for expenditure by MCW in a manner consistent with the standard of prudence prescribed by UPMIFA and the donor-restrictions have been satisfied. See note 2(a) for further information on net asset classification.

In accordance with UPMIFA, MCW considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds.
- The purposes of MCW and the donor-restricted endowment funds.
- General economic conditions.
- The possible effect of inflation or deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of MCW.
- The investment policy of MCW.

(b) Return Objectives and Risk Parameters

MCW has adopted investment and spending policies for endowment assets with the objective of appropriating as much of the net appreciation as is prudent and consistent with overall investment objectives, while protecting the original gift value of the endowment assets. Under the investment policy approved by the Board of Trustees, the long-term investment objective for the endowment assets is to earn on average a real (inflation adjusted) annual rate of return and to provide a return for appropriation of not less than the total annual appropriation rate under the endowment fund spending policy.

The investment goal of MCW is to preserve the purchasing power of its investments, while providing a level of investment return and liquidity that funds its purposes within a reasonable and prudent level of risk.

(c) Strategies Employed for Achieving Objectives

MCW seeks to define its investment policy through control of asset mix and measurement of results utilizing widely recognized market benchmarks. Investment decisions are made with a long-term time horizon. The investment portfolio is well diversified among fixed income instruments, domestic and international equities, and other equity securities.

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(In thousands)

(d) Spending Policy and Relationship of Investment Objectives to Spending Policy

The Board of Trustees approved an endowment fund spending policy in which the spendable income from pooled endowment investments is based on the total return concept. With the total return concept, spendable income is supported by the net appreciation of the endowment investments.

Spendable income funds are considered appropriated for expenditure when they are expended for the use and purpose for which the endowment fund was established.

The spendable income rate is calculated as the product of the quarterly distribution rate and the market value of the endowment investments. The quarterly distribution rate is calculated as one-quarter of the current spending rate of 5.00% applied to product of the number of shares held at the end of one quarter prior to the present quarter and the average market value per share for the preceding twenty quarters as of the end of the quarter ending three months prior to the beginning of the present quarter. The quarterly distribution rate cannot exceed one-quarter of the maximum spending rate of 5.25% calculated as an effective rate based on the endowment fund market value at the beginning of the present quarter. This spending policy is consistent with MCW's investment objective to earn a real rate of return to provide for a distribution of net appreciation that is prudent, while protecting the original gift value of the endowment assets.

(e) Net Asset Composition by Type of Fund

Composition of endowment assets by net asset class (excluding pledges receivable of \$16,018 and \$19,933, respectively) as of June 30, 2022 and 2021 in total and by type is summarized below:

	2022		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowments:			
Advancing a Healthier Wisconsin:			
Perpetual in nature	\$ —	290,478	290,478
Restricted by time or purpose	—	167,784	167,784
Other endowments:			
Perpetual in nature	—	146,872	146,872
Restricted by time or purpose	—	67,236	67,236
Endowments designated by the Board of Trustees	840,170	—	840,170
Total	\$ 840,170	672,370	1,512,540

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	2021		Total
	Without donor restrictions	With donor restrictions	
Donor-restricted endowments:			
Advancing a Healthier Wisconsin:			
Perpetual in nature	\$ —	290,478	290,478
Restricted by time or purpose	—	267,819	267,819
Other endowments:			
Perpetual in nature	—	130,434	130,434
Restricted by time or purpose	—	106,860	106,860
Endowments designated by the Board of Trustees	<u>830,783</u>	<u>—</u>	<u>830,783</u>
Total	\$ <u><u>830,783</u></u>	<u><u>795,591</u></u>	<u><u>1,626,374</u></u>

(f) Changes in Endowment Net Assets

Rollforwards of the beginning and ending balances of endowments by net asset class for the years ended June 30, 2022 and 2021 are as follows:

	2022		Total
	Without donor restrictions	With donor restrictions	
Interest and dividend income	\$ 3,785	7,344	11,129
Realized gain on investments	75,260	65,612	140,872
Unrealized loss on investments	<u>(224,582)</u>	<u>(183,708)</u>	<u>(408,290)</u>
Total investment return	(145,537)	(110,752)	(256,289)
Contributions	172,615	14,569	187,184
Expenditures	<u>(17,691)</u>	<u>(27,038)</u>	<u>(44,729)</u>
Total change in endowments	9,387	(123,221)	(113,834)
Net assets, beginning of year	<u>830,783</u>	<u>795,591</u>	<u>1,626,374</u>
Net assets, end of year	\$ <u><u>840,170</u></u>	<u><u>672,370</u></u>	<u><u>1,512,540</u></u>

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	2021		
	Without donor restrictions	With donor restrictions	Total
Interest and dividend income	\$ 4,988	4,173	9,161
Realized gain on investments	22,442	22,035	44,477
Unrealized gain on investments	174,408	170,721	345,129
Total investment return	201,838	196,929	398,767
Contributions	8,116	14,575	22,691
Expenditures	(1,456)	(27,342)	(28,798)
Total change in endowments	208,498	184,162	392,660
Net assets, beginning of year	622,285	611,429	1,233,714
Net assets, end of year	\$ 830,783	795,591	1,626,374

(g) Endowments with Fair Value Less Than Original Gift Value

Periodically, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Board of Trustees (pursuant to UPMIFA) requires MCW to retain to preserve the fair value of the original gift in perpetuity. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. For MCW, donor-restricted endowment funds with deficiencies had an original gift value of \$29,138, a current fair value of \$26,784, and a deficiency of \$2,354 as of June 30, 2022. As of June 30, 2021, there were no donor-restricted endowment funds with deficiencies. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent as allowed by the spending policy approved by the Board of Trustees.

(8) Patient Services Revenue and Patient Accounts Receivable

Patient services revenue, net of explicit contractual allowances, discounts and implicit price concessions, by major payor source for the years ended June 30, 2022 and 2021 is as follows:

	2022	2021
Commercial/managed care	\$ 291,236	300,622
Self-pay patients	64,002	45,597
Medicaid	29,336	28,477
Medicare	94,536	82,879
Other	10,516	6,064
Patient services revenue	\$ 489,626	463,639

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MCW grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from self-pay patients and third-party payors at June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Commercial/managed care	\$ 33,899	35,432
Self-pay patients	15,226	14,588
Medicaid	1,745	1,941
Medicare	7,393	5,820
Other	3,116	183
Patient accounts receivable	<u>\$ 61,379</u>	<u>57,964</u>

The contractual maturity of these accounts receivables is less than one year.

(9) Other Accounts Receivable

Other accounts receivable at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Affiliated hospitals	\$ 51,444	24,747
Other	44,619	25,239
Other accounts receivable	96,063	49,986
Allowance for doubtful accounts	(908)	(1,230)
Other accounts receivable	<u>\$ 95,155</u>	<u>48,756</u>

MCW has affiliations with a number of hospitals in which MCW medical professionals provide clinical management services, graduate medical education and other program services. In consideration for these services, the affiliated hospitals compensate MCW for salary, fringe benefit and other related costs on a monthly basis.

The contractual maturity of these accounts receivables is less than one year. An allowance for doubtful accounts for affiliate and other accounts receivable is established based upon an annual review of the collectability of the underlying accounts receivable utilizing the accounts receivable aging and the historical loss rates on affiliates and other accounts receivable.

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(10) Grants and Contracts Receivable, Net

Grants and contracts receivable at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Grants and contracts	\$ 36,879	35,761
Allowance for doubtful accounts	<u>(444)</u>	<u>(203)</u>
Grants and contracts receivable, net	<u>\$ 36,435</u>	<u>35,558</u>

The contractual maturity of these accounts receivables is less than one year. An allowance for doubtful accounts for grants and contracts receivable is established based upon an annual review of the collectability of the underlying receivables utilizing the grants and contracts receivable aging and the historical loss rates on grants and contracts receivable.

(11) Contributions Receivable, Net

Net contributions receivable consists primarily of donor pledges and is summarized as follows at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Total contributions receivable	\$ 61,697	54,684
Allowance for uncollectible contributions	(1,177)	(758)
Adjustment to present value	<u>(3,286)</u>	<u>(3,022)</u>
Contributions receivable, net	<u>\$ 57,234</u>	<u>50,904</u>

The discount rates used to adjust the contributions receivable to present value range from 0.09% to 3.20% at June 30, 2022 and 2021. Contributions receivable at June 30, 2022 are expected to be collected in future years as follows:

2023	\$ 14,171
2024	9,964
2025	8,650
2026	7,726
2027	8,772
2028 and beyond	<u>12,414</u>
Total	<u>\$ 61,697</u>

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(12) Student Loans Receivable, Net

Student loans receivable at June 30, 2022 and 2021 consist of the following loan funds:

	<u>2022</u>	<u>2021</u>
Federal Primary Care Loan Program	\$ 6,765	5,725
Federal Perkins Loan Program	1,547	2,128
Health Professions Student Loan Program	837	267
MCW Institutional Loans	<u>12,099</u>	<u>11,396</u>
Students loans receivable	21,248	19,516
Allowance for loan loss	<u>(390)</u>	<u>(206)</u>
Student loans receivable, net	<u>\$ 20,858</u>	<u>19,310</u>

Although there are multiple funding sources for student loans, MCW's student loans receivable is generated through the extension of credit to students to fund educational costs, and therefore, all such loans receivable are considered part of the same portfolio. Student loans receivable are initially measured at cost, which approximates fair value, and MCW assesses and monitors risk and performance of the entire portfolio.

An allowance for loan loss in student loans receivable is established based upon an annual review of the collectability of the underlying student loans utilizing the loans receivable aging and the historical loss rates on loans. The allowance represents management's estimate of the amount of student loans receivable for which a loss is probable. Actual losses are charged against the allowance. The allowance for loan loss is increased through charges to expense (provision) and recoveries of loans previously charged to the allowance.

The credit risk profiles of the student loans receivable are based on payment activity as of June 30, 2022 and 2021. Loans are considered nonperforming if they are more than 2 years past due and there has been no activity in the past 6 months. The following table details the credit risk profiles:

	<u>2022</u>	<u>2021</u>
Student loans receivable:		
Performing	\$ 21,173	19,368
Nonperforming	<u>75</u>	<u>148</u>
Total student loans receivable	<u>\$ 21,248</u>	<u>19,516</u>

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The following table provides an analysis of current student loans receivable, including amounts for students in school, in grace and not past due, and the aging of the past due student loans receivable as of June 30, 2022 and 2021:

	<u>< 270 Days past due</u>	<u>270 Days– 2 years past due</u>	<u>2–5 Years past due</u>	<u>> 5 Years past due</u>	<u>Total past due</u>	<u>Current</u>
June 30, 2022	\$ 223	48	260	137	668	20,580
June 30, 2021	167	267	17	131	582	18,934

The recorded investment in student loans receivable for which an impairment has been recognized is \$668 and \$582 at June 30, 2022 and 2021, respectively. The related allowance for loan loss is \$390 and \$206 at June 30, 2022 and 2021, respectively. The average recorded investment in impaired student loans receivable is \$625 and \$698 during 2022 and 2021, respectively. Interest income recognized on student loans receivable is \$230 and \$217 during 2022 and 2021, respectively. There were no sales of student loans receivable for the years ended June 30, 2022 and 2021.

(13) Leases

MCW is a lessee in several noncancelable operating leases, primarily for land and buildings for clinical, academic, and administrative purposes that expire over the next 12 years. These leases generally contain renewal options for periods ranging from 1 to 5 years. The option period is included in determining the lease term and lease payments if it is reasonably certain to be exercised by MCW or its execution is controlled by the lessor. Payments due under the lease contracts include fixed payments plus, for some of the leases, variable payments. Variable payments generally include payments for MCW's proportionate share of the building's property taxes, insurance, and common area maintenance.

Lease rental expense for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Operating lease rental expense	\$ 9,854	12,195
Variable rental expense	7,006	9,748
Total rental expense	\$ <u>16,860</u>	<u>21,943</u>

ROU assets and long-term lease obligations reported on the consolidated statements of financial position as of June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Operating ROU assets	\$ 62,322	81,105
Operating lease long-term lease obligations	68,845	87,816

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ROU assets of \$721 and \$0 were obtained in exchange for long-term lease obligations on operating leases and finance leases, respectively, for the year ended June 30, 2022. ROU assets of \$3,293 and \$0 were obtained in exchange for long-term lease obligations on operating leases and finance leases, respectively, for the year ended June 30, 2021. Reductions in ROU assets of \$11,989 and \$1,885 resulted in reductions to long-term lease obligations on operating leases for the years ended June 30, 2022 and 2021, respectively. Amounts disclosed for ROU assets obtained in exchange for long-term lease obligations include amounts added to the carrying amount of ROU assets resulting from lease modifications and reassessments.

Maturities of long-term operating lease obligations under noncancelable leases as of June 30, 2022 are as follows:

2023	\$	9,521
2024		8,756
2025		8,220
2026		8,426
2027		8,019
2028 and beyond		<u>36,050</u>
Total undiscounted long-term operating lease obligations		78,992
Less imputed interest		<u>10,147</u>
Total long-term operating lease obligations	\$	<u><u>68,845</u></u>

As of June 30, 2022 and 2021, the weighted-average remaining lease term for all operating leases is 9 years.

The weighted average discount rate associated with operating leases as of June 30, 2022 and 2021 is 3%.

(14) Land, Buildings, and Equipment, Net

Land, buildings, and equipment is comprised of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Land, buildings, and improvements	\$ 474,960	465,329
Equipment and furnishings	299,349	288,538
Library books	948	948
Construction in progress	<u>13,233</u>	<u>6,501</u>
	788,490	761,316
Accumulated depreciation and amortization	<u>(505,867)</u>	<u>(477,395)</u>
Land, buildings, and equipment, net	<u><u>\$ 282,623</u></u>	<u><u>283,921</u></u>

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At June 30, 2022 and 2021, construction in progress includes capitalized interest of \$5,356 and \$271, respectively.

MCW is a party to construction contracts that exist for various building renovation and grounds improvement projects. As of June 30, 2022, MCW's outstanding contractual commitments on these contracts \$2,169.

(15) Professional Liability Insurance Program

MCW is required to participate in the Injured Patients and Families Compensation Fund of the State of Wisconsin (the State Fund). MCW is also required to insure for claim losses up to \$1,000 per claim for each medical professional and \$3,000 in the aggregate per year for each medical professional for professional liability claims. Losses with respect to malpractice risks in excess of these amounts are covered by the State Fund.

MCW established a trust, The Medical College of Wisconsin, Inc. Professional Liability Insurance Program (the Program), to cover malpractice claims below the levels covered by the State Fund. Actuarially determined amounts are contributed to the Program to provide for the estimated cost of self-insured claims and meet State of Wisconsin requirements. The Program's independent actuary has estimated the unpaid claims liability of the Program, including claims handling and legal expenses.

During 2022 and 2021, MCW made contributions to the Program in the amounts of \$766 and \$867, respectively. The Program has net assets without donor restrictions of \$7,327 and \$11,685 as of June 30, 2022 and 2021, respectively.

Investments held in trust for the Program, as reported in investments at fair value on the consolidated statements of financial position, are \$16,683 and \$20,793 as of June 30, 2022 and 2021, respectively.

(16) Long-Term Debt

Long-term debt consists of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Tax-exempt fixed rate Wisconsin Health and Educational Facilities Authority (WHEFA) Revenue Bonds Series 2008 A, with mandatory sinking fund serial bond maturities due annually through 2021. The effective interest rate is 0.00% and 5.21% at June 30, 2022 and 2021, respectively. Interest is payable semiannually	\$ —	5,315

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	<u>2022</u>	<u>2021</u>
Tax-exempt variable rate WHEFA Revenue Bonds		
Series 2008 B, with mandatory sinking fund serial bond maturities due annually 2025 through 2034. Interest is payable monthly at rates reset on a daily basis (0.65% and 0.02% at June 30, 2022 and 2021, respectively)	\$ 67,500	67,500
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2014 A, with principal payments due annually through 2025. Interest is payable monthly at 2.21%	6,065	7,955
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2014 B, with principal payments due annually through 2027. Interest is payable monthly at 2.36%	10,480	12,610
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2016, with mandatory sinking fund serial bond maturities due annually through 2036 and term bond maturities due in 2041 and 2046. The effective interest rate is 4.47% and 4.48% at June 30, 2022 and 2021 respectively	143,605	146,280
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2018, with principal payments due annually through 2033. Interest is payable monthly at 3.05%	50,195	53,800
Tax-exempt fixed rate WHEFA Revenue Bonds		
Series 2022, with mandatory sinking fund serial bond maturities due annually 2036 through 2041 and term bond maturities due in 2046 and 2051. The effective interest rate is 4.18% at June 30, 2022	165,350	—
Note payable, with an effective interest rate of 3.52%. The note is payable to Milwaukee County in annual installment payments through September 2074	8,470	8,525
	<u>8,470</u>	<u>8,525</u>
Total long-term debt before unamortized premium and discount and issuance costs	451,665	301,985
Unamortized discounts and premiums	40,248	13,530
Unamortized issuance costs	<u>(3,166)</u>	<u>(1,832)</u>
Total long-term debt	\$ <u>488,747</u>	<u>313,683</u>

The revenue bonds, taxable loans and related credit agreements were issued under the Master Trust Indenture and are collateralized by a pledge of certain revenues of MCW. The borrowing agreements contain continuing disclosure requirements and various covenants and restrictions, including a requirement that MCW maintain a minimum debt service coverage ratio, a minimum number of days of unrestricted cash on hand, and a maximum debt to capitalization ratio.

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The aggregate scheduled principal maturities of long-term debt for each of the five years subsequent to June 30, 2022 and thereafter are as follows:

2023	\$	10,707
2024		11,074
2025		11,621
2026		12,078
2027		12,450
2028 and beyond		<u>393,735</u>
Total	\$	<u>451,665</u>

All or part of the Series 2008 B, 2014 A, 2014 B, 2016, 2018 and 2022 bonds may be redeemed at par plus accrued and unpaid interest, if any, to the date of redemption, as set forth below:

- The Series 2008 B bonds are continuously callable.
- The Series 2014 A bonds may be redeemed at any time, subject to prepayment premium provisions.
- A portion of the Series 2014 B bonds up to \$6,000 may be redeemed at any time. The remaining Series 2014 B bonds may be redeemed at any time subject to prepayment premium provisions.
- The Series 2016 bonds may be redeemed beginning on November 1, 2026. A portion of the Series 2016 bonds may be redeemed prior to November 1, 2026, subject to prepayment premium provisions.
- The Series 2018 bonds may be redeemed at any time, subject to a make-whole provision.
- The Series 2022 bonds may be redeemed beginning on December 1, 2031.

(a) WHEFA Revenue Bond Series 2008

The Series 2008 A bonds, totaling \$83,400, were issued on July 30, 2008 to (i) refund the WHEFA Revenue Bond Series 2004 B1 bonds which had been issued to refund the WHEFA Revenue Bond Series 1993, and to fund construction of a Biomedical Research Facility, certain additional capital projects and a parking structure, (ii) to fund the construction of research capital projects at the Biomedical Research Facility and certain additional capital projects, and (iii) to fund a debt service reserve fund. Certain of the Series 2008 A bonds were advance-refunded by the WHEFA Revenue Bond Series 2016. The remaining Series 2008A bonds were refunded by the WHEFA Revenue Bond Series 2022.

The Series 2008 B bonds, totaling \$67,500, were issued on September 4, 2008 to refund the outstanding WHEFA Revenue Bonds Series 2004 B2 which had been issued to fund construction of a Biomedical Research Facility, certain additional capital projects and a parking structure.

Concurrent with the issuance of the Series 2008 B bonds, MCW entered into a Credit Agreement with a financial institution under which the financial institution issued a renewable direct pay letter of credit. On August 1, 2018, the Credit Agreement was amended and restated and the letter of credit was extended

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to September 15, 2023. The \$68,277 letter of credit is available to secure the Series 2008 B bonds and to make payments (liquidity drawings) in the event that any Series 2008 B bonds are subject to an optional or mandatory tender and are not remarketed. A mandatory tender would occur if the letter of credit is not renewed or replaced by the second business day prior to its expiration date. If any liquidity drawings are made, the outstanding drawings will automatically convert to a drawing loan. Payments of outstanding principal and interest under the drawing loan would be due in quarterly principal and monthly interest installments, commencing on the first business day of the respective quarter or month after the conversion. The outstanding principal balance of any such drawing loan would bear interest at the base rate plus up to 200 basis points based on the length of the loan. The base rate is calculated as the greater of i) Prime Rate plus 100 basis points, ii) Federal Funds Rate plus 200 basis points or iii) seven percent. The unpaid principal and accrued interest on the drawing loan would be due three years after the date of the initial liquidity drawing. If a full optional or mandatory tender occurs and liquidity drawings convert to a drawing loan at a base rate of 7%, annual debt service related to the Series 2008 B bonds will increase by \$27,000, \$25,800, and \$23,700 over the next three years, respectively. As of June 30, 2022 and 2021, there were no outstanding liquidity drawings or drawing loans under the Credit Agreement.

(b) WHEFA Revenue Bond Series 2014

The Series 2014 A bonds, totaling \$18,450, were issued on December 16, 2014 to refund the WHEFA Revenue Bond Series 2004 A which had been issued to refund the WHEFA Revenue Bond Series 1993 and to fund the construction of a Biomedical Research Facility, certain additional capital projects and a parking structure. The Series 2014 B bonds, totaling \$13,930, were issued on December 16, 2014 to advance refund the Series 2010 term bond. The Series 2014 A and 2014 B bonds were issued as direct placements with a financial institution.

(c) WHEFA Revenue Bond Series 2016

The Series 2016 bonds, totaling \$157,805, were issued on May 11, 2016 to advance-refund a portion of the Series 2008 A bonds, to fund the construction and equipping of a professional office building, and to fund renovations to existing facilities to integrate the new building and to accommodate the operations of a new School of Pharmacy.

(d) WHEFA Revenue Bond Series 2018

The Series 2018 bonds, totaling \$55,000, were issued on September 6, 2018 to fund the equipping of a professional office building, renovations and equipping of an existing basic science building, renovation and equipping of other existing educational facilities and expansion and equipping of an educational facility located in central Wisconsin. The Series 2018 bonds were issued as a direct placement with a financial institution.

(e) WHEFA Revenue Bond Series 2022

The Series 2022 bonds, totaling \$165,350, were issued on February 3, 2022 to refund the remaining Series 2008A bonds, to fund the construction and equipping of a cancer research building, renovations and equipping of an existing basic science building, and renovation and equipping of other existing educational facilities.

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(f) Taxable Loans

On May 1, 2020, MCW entered into a Loan Agreement with a financial institution under which a taxable revolving loan was made to MCW by the financial institution. The revolving loan is for \$50,000 and is used for working capital expenditures. MCW pays a fee of 0.10% quarterly on the unused balance of the revolving loan.

(g) Note Payable to Milwaukee County

On April 14, 2020, MCW entered into a Land Payment Agreement with Milwaukee County in exchange for land that MCW previously leased from Milwaukee County under long-term lease agreements. The amounts owed under the Land Payment Agreement are secured by a mortgage of the land acquired in the purchase.

(h) Derivative Instruments

Variable interest rate debt obligations expose MCW to variability in interest payments due to changes in interest rates. Management believes that it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management utilizes an interest rate swap agreement to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swap changes the variable rate cash flow exposure on the debt obligations to fixed cash flows. Under the terms of the interest rate swap, MCW receives variable interest rate payments and makes fixed interest rate payments monthly to the counterparty, thereby creating the equivalent of fixed rate debt. The net difference between the amounts received from and paid to the counterparty is recorded as interest expense.

MCW entered into an interest rate swap agreement for the WHEFA Revenue Bond Series 2004 variable rate debt in October 2004. Effective September 15, 2008, MCW revised the original interest rate swap agreement to conform with the principal amount and amortization schedule of the Series 2008 B bonds. The revised interest rate swap agreement has a notional amount of \$67,500, a fixed payment rate of 3.558% and a variable counterparty payment of 68% of the 30-day LIBOR. Consistent with the reset schedule of the 2008 B bonds, the interest rate swap has a weekly reset with monthly payments due to or from MCW on the first business day of the month. The revised interest rate swap agreement expires December 1, 2033. The provisions set forth in the interest rate swap agreement require MCW to provide investment securities as collateral if the interest rate swap market value falls below a specified threshold. Investment securities with a fair value of \$0 and \$643 were provided as collateral as of June 30, 2022 and 2021, respectively.

By using derivative financial instruments to hedge exposure to changes in interest rates, MCW exposes itself to nonperformance risk and market risk. Nonperformance risk refers to the risk that the obligation will not be fulfilled. Credit risk, a measure of nonperformance risk, is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes MCW, which creates credit risk for MCW. When the fair value of a derivative contract is negative, MCW owes the counterparty, and therefore, it does not possess credit risk. MCW minimized the credit risk in derivative instruments by entering into a transaction with a high-quality counterparty. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with the interest rate swap agreement is managed by limiting the types and degree of market risk that may be undertaken.

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

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(In thousands)

(17) Net Assets

Certain net assets are designated for specific purposes by the MCW Board of Trustees; however the net assets are without donor restriction and can be used for any institutional purposes by MCW. The designations at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Designated to function as endowment funds to support the following purposes:		
Research	\$ 423,561	404,235
Professorships	2,360	2,882
Undesignated	<u>414,249</u>	<u>423,666</u>
	840,170	830,783
Designated for the professional liability insurance program	7,327	11,685
Undesignated	<u>395,807</u>	<u>616,811</u>
	<u>\$ 1,243,304</u>	<u>1,459,279</u>

Net assets with donor restrictions that are restricted for time, purpose or both at June 30, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings of \$333,260 and \$631,921, respectively):		
Advancing a Healthier Wisconsin	\$ 458,262	558,297
Research	69,036	78,262
Professorships	45,762	46,878
Scholarships	37,323	42,102
Education	8,449	9,491
Community engagement	3,544	4,246
Other	<u>49,994</u>	<u>56,315</u>
	<u>672,370</u>	<u>795,591</u>

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	<u>2022</u>	<u>2021</u>
Time implied pledges to support the following purposes:		
Research	\$ 37,614	24,048
Scholarships	597	1,857
Education	3,490	6,243
Other, including discounts and bad debt allowances	<u>(485)</u>	<u>(1,177)</u>
	<u>41,216</u>	<u>30,971</u>
Time implied pledges to support the following purposes in perpetuity:		
Research	6,647	8,103
Professorships	5,892	6,537
Scholarships	1,293	1,525
Other, including discounts and bad debt allowances	<u>2,186</u>	<u>3,768</u>
	<u>16,018</u>	<u>19,933</u>
Gifts subject to expenditure to support the following purposes:		
Capital projects	22,732	23,515
Research	4,678	1,735
Scholarships	1,186	1,204
Education	1,221	5,069
Student loans	9,602	9,390
Community	<u>301</u>	<u>—</u>
	<u>39,720</u>	<u>40,913</u>
Charitable gifts that will provide proceeds in the future:		
Trusts and annuities	6,058	6,547
Life insurance	<u>273</u>	<u>254</u>
	<u>6,331</u>	<u>6,801</u>
	<u>\$ 775,655</u>	<u>894,209</u>

(a) Advancing a Healthier Wisconsin

MCW received marketable securities from The Wisconsin United for Health Foundation, Inc. (WUHF) having original fair values of approximately \$303,347 in March 2004, \$15,229 in December 2007, and \$1,789 in August 2019. WUHF was then dissolved. These assets are referred to as Advancing a Healthier Wisconsin funds (AHW funds) and are classified as net assets with donor restrictions. The AHW funds are proceeds of the conversion of Blue Cross and Blue Shield United of Wisconsin from a not-for-profit company to a for-profit stock company, as approved by the Wisconsin Commissioner of Insurance in the Findings of Fact, Conclusions of Law, and Order (the Order) issued March 28, 2000. The AHW funds are under the oversight of the MCW Consortium on Public and Community Health, Inc.

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Notes to Consolidated Financial Statements

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(In thousands)

(the MCW Consortium) and are restricted pursuant to terms of the Order. MCW is entitled to appoint eight of the nine board members of the MCW Consortium (four of whom shall represent MCW).

Pursuant to the Order, the Advancing a Healthier Wisconsin program dedicates 65% of the spendable funds for research and education initiatives and 35% for community initiatives. The funding allocation remains unless it is changed by the affirmative vote of two-thirds of the MCW Consortium. The MCW Consortium periodically evaluates the allocation percentages. The AHW funds cannot be used to supplant support otherwise available, expended directly or indirectly for land or buildings, or committed as collateral without the approval of two-thirds of all members of the MCW Consortium.

(b) State of Wisconsin Construction and Equipment Grants

On November 17, 2004, the Wisconsin State Building Commission approved the release of a \$25,000 grant to MCW to aid in the construction of a Biomedical Research Facility. On March 31, 2005, MCW entered into a Grant and Land Use Restriction Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The grant agreement provided support for 28.4% of the eligible construction expenses for the facility, conditioned upon receipt of a requisition documenting that such expenditures had been incurred. As of June 30, 2007, MCW had recognized a contribution with donor restriction for the entire \$25,000 related to the construction grant. The Biomedical Research Facility was placed into service during 2007, and MCW began releasing the restriction on the contribution over the estimated life of the use restriction. As of June 30, 2022, \$15,450 remains classified as net assets with donor restriction.

The Grant and Land Use Restriction Agreement places a restriction on the facility, requiring that it be continuously used as a research and medical education center to conduct biomedical research, create new technologies, train students in the substance and methodology of biomedical research, and provide support to individuals and organizations in the state who are engaged in biomedical research and technological innovation consistent with the tax-exempt charitable missions of MCW. MCW has a potential future liability to repay the funds if the facility should cease to be used for its required purpose. Currently, it is not probable that this circumstance will occur, and a liability is not recorded.

On November 9, 2010, MCW entered into an Amendment to the 2005 Grant and Land Use Restriction Agreement that authorizes an additional \$10,000 to support the construction and installation of biomedical research magnetic resonance imaging equipment at MCW. Under terms and conditions similar to the original agreement, portions of the project were completed and placed into service starting in 2012.

On August 6, 2014 and February 20, 2019, the Wisconsin State Building Commission approved the release of \$5,384 and \$2,000, respectively, of grant funds to MCW to aid in the remodel, development, and renovation of two community medical education facilities in northeast Wisconsin and central Wisconsin. On December 22, 2015, MCW entered into a Grant Agreement, a Use Restriction Easement, and a Security Agreement with the State of Wisconsin Department of Administration to formalize the terms for receipt of these funds. The Grant Agreement provided support for reimbursement of 50% of capital expenditures associated with the development of the two community medical education programs. During the years ended June 30, 2022 and 2021, MCW recognized a contribution with donor restriction of \$0 and \$154, respectively, related to this grant. Portions of the

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(In thousands)

project were completed and placed into service starting in 2014, and MCW began releasing the restriction on the contribution over the estimated life of the grant restrictions. As of June 30, 2022, \$5,600 remains classified as net assets with donor restrictions.

(18) Employee Benefit Plans

MCW sponsors a Section 403(b) defined contribution retirement Plan (the Plan). Employees are eligible to voluntarily participate in the Plan immediately upon hire. Voluntary contributions are made solely through participant payroll withholdings (up to the IRS annual limit) and are not matched by MCW. Upon completing two years of services and attaining the age of 21, participants must contribute 6% of their pretax annual compensation (mandatory participation). Upon mandatory participation, MCW makes matching contributions of 0% to 8% (up to the IRS annual limit) of the participant's compensation. Participants are immediately vested in their contributions, MCW's matching contributions and earnings thereon. The contributions made by MCW and recognized as expense were approximately \$47,792 and \$45,578, respectively, for the years ended June 30, 2022 and 2021.

On June 24, 2016, MCW established a Section 457(f) defined contribution retirement plan for certain eligible employees. Contributions to the plan remain solely the property of MCW. Eligible participants vest in their contributions for a plan year on the last day of the third plan year for each plan year they are a participant. Distributions are made to the eligible participants in single, lump sum payment when contributions become vested. MCW previously provided deferred compensation and Section 457 defined contribution plans to several key employees. As of June 30, 2016, contributions to these plans have ended. Assets related to the deferred compensation and defined contribution benefits of \$3,702 and \$5,471 at June 30, 2022 and 2021, respectively, are reflected in cash and cash equivalents and investments at fair value. Accrued benefits totaling approximately \$3,702 and \$5,290 at June 30, 2022 and 2021, respectively, are reflected in accrued payroll and related liabilities.

MCW is self-insured for health and dental benefits provided to active employees. A portion of the health care services is provided to employees by faculty and staff physicians. MCW paid health and dental benefit claims, net of employee contributions, of \$65,566 and \$1,968, respectively, during the year ended June 30, 2022 and \$58,917 and \$1,856, respectively, during the year ended June 30, 2021.

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Notes to Consolidated Financial Statements

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(In thousands)

(19) Functional Expenses

Expenses classified by both nature and function for the year ended June 30, 2022 and 2021 are as follows:

	Year ended June 30, 2022						
	Program activities				Supporting activities		Total expenses
	Patient care	Research	Education	Community engagement	Institutional support	Fundraising	
Faculty salaries	\$ 426,095	68,464	42,491	3,096	4,142	458	544,746
Staff salaries	176,916	95,037	24,851	3,150	41,167	3,233	344,354
Fringe benefits	107,950	35,336	13,517	1,349	13,321	816	172,289
Services, supplies and other	64,171	45,311	23,925	1,280	31,806	1,261	167,754
Rent and occupancy	13,321	14,320	5,101	203	5,789	146	38,880
Subcontracts	335	35,995	2,437	4,716	—	—	43,483
Depreciation and amortization	7,415	19,039	5,581	161	2,844	135	35,175
Interest on indebtedness	3,900	4,675	972	25	905	—	10,477
Total expenses	\$ 800,103	318,177	118,875	13,980	99,974	6,049	1,357,158

	Year ended June 30, 2021						
	Program activities				Supporting activities		Total expenses
	Patient care	Research	Education	Community engagement	Institutional support	Fundraising	
Faculty salaries	\$ 413,550	62,599	39,418	3,285	4,156	425	523,433
Staff salaries	160,136	85,311	22,028	3,438	41,904	3,116	315,933
Fringe benefits	100,154	32,530	12,395	1,482	12,323	778	159,662
Services, supplies and other	54,659	36,414	16,991	1,319	28,496	539	138,418
Rent and occupancy	17,865	13,152	4,816	192	8,571	163	44,759
Subcontracts	—	33,335	2,506	5,786	—	—	41,627
Depreciation and amortization	8,082	18,989	4,907	196	3,022	147	35,343
Interest on indebtedness	4,115	4,590	1,164	43	780	—	10,692
Total expenses	\$ 758,561	286,920	104,225	15,741	99,252	5,168	1,269,867

Patient care expenses relate to all clinical and clinical support activities including those that are performed in the presence of residents and medical students. Research expenses pertain to all basic, translational, and clinical research and development activities that are externally sponsored or internally funded. Education expenses include credit and noncredit programs for medical students, graduate students, pharmacy students, residents, post-doctoral fellows, student trainees and continuing medical education participants. Community engagement expenses include partnerships with public and private organizations to enhance learning, research, patient care and the health of the community.

The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses are allocated on a reasonable basis that is consistently applied. Faculty salaries, staff salaries and fringe benefits are allocated to program and supporting activities on the basis of estimates of time and effort. Interest expense and costs related to the operation and maintenance of physical plant, including depreciation of buildings and equipment, are allocated to program and supporting activities on a square-footage basis based on estimates of functional use of the related space. Administrative and managerial costs that support more than one program activity are allocated among the program activities based on the percentage of each program's total expenses in

MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Consolidated Financial Statements

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(In thousands)

relation to the total expenses for all programs. All other expenses are directly related to their attributed function.

(20) Availability of Resources

MCW holds cash balances to maintain daily cash requirements. To efficiently manage liquidity and capital, MCW continually determines the necessary amount of cash and cash equivalents to hold in cash and money market funds to meet operational needs.

Financial assets expected to be available within one year of June 30, 2022 and 2021 for general expenditure are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 148,631	189,599
Investments, at fair value	1,925,663	2,257,013
Receivables:		
Patient accounts	61,379	57,964
Other accounts, net	95,155	48,756
Contributions, net	<u>57,234</u>	<u>50,904</u>
Financial assets at year end	2,288,062	2,604,236
Less financial assets unavailable for general expenditure within one year due to:		
Restrictions:		
Endowments, net of funds to be appropriated for expenditure within one year	566,084	675,983
Funds functioning as endowments, net of funds to be appropriated for expenditure within one year	723,813	710,934
Restricted cash and investments	23,922	33,415
Pledges receivable, net of amounts to be received within one year	43,063	35,040
Liquidity:		
Unrestricted investments with liquidity horizons greater than one year	<u>82,332</u>	<u>52,174</u>
Financial assets available to meet cash needs for general expenditure within one year	\$ <u>848,848</u>	<u>1,096,690</u>

MCW intends to spend from its funds functioning as endowments only those amounts appropriated for general expenditure as part of its appropriation process. However, the underlying investments are liquid and could be made available for general expenditure with approval of the Board of Trustees.

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(In thousands)

(21) Commitments and Contingent Liabilities

Amounts received and expended by MCW under various federal and state programs are subject to audit by governmental agencies. In the opinion of management, audit adjustments, if any, will not have a significant effect on the consolidated financial position of MCW.

MCW periodically conducts internal investigations into deviations from approved research protocols reported to its Institutional Review Board. The investigations are conducted pursuant to MCW's Procedures for Addressing Scientific Misconduct and the model Procedures for Responding to Allegations of Scientific Misconduct issued by the United States Office of Research Integrity. The results of investigations, which have identified potential unallowable costs, are reported by MCW to the Food and Drug Administration and the Office of Human Research Protection. Management is unable to assess the outcome of any pending agency reviews, but it is the opinion of management that these matters will not have a material adverse effect on the consolidated financial statements of MCW.

MCW is a party to various other legal and regulatory actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the consolidated financial statements of MCW.

(22) Coronavirus 2019

On March 11, 2020, the World Health Organization designated Coronavirus 2019 (COVID-19) as a global pandemic. Patient activity and related revenues for most services were significantly impacted as various policies were implemented by federal, state and local governments in response to the COVID-19 pandemic that caused many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures. As restrictions have eased and the moratoriums on non-emergent procedures have been lifted, patient activity and related revenues have gradually improved throughout fiscal years 2021 and 2022.

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law providing temporary and limited relief to hospitals and healthcare providers during the COVID-19 outbreak. In relation to the CARES Act for the year ended June 30, 2022, MCW received or accrued \$2,057 in general distributions, \$0 in employee retention credits, \$1,457 in reimbursement of unemployment contributions, \$1,042 in higher education relief funds, and \$134 in state and county pass-through funds under the CARES Act. For the year ended June 30, 2021, MCW received or accrued \$33,077 in general distributions, \$353 in employee retention credits, \$493 in reimbursement of unemployment contributions, \$672 in higher education relief funds, and \$4,187 in state and county pass-through funds under the CARES Act. The general distribution funds are not subject to repayment, provided MCW is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on analysis of the compliance and reporting requirements of the CARES Act and the state relief program, and the impact of the pandemic on operating results through June 30, 2022 and 2021, MCW has recorded \$4,690 and \$38,782, respectively, as coronavirus relief funds revenue in the

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(In thousands)

consolidated statements of operations and changes in net assets. MCW continues to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on revenues and expenses. If MCW is unable to attest to or comply with current or future terms and conditions, the ability to retain some or all of the distributions received may be impacted.

On April 16, 2020, MCW received approximately \$9,000 of payments under the Medicare Advanced Payment Program (APP) which allows eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Beginning 365 days after receipt of the APP funds (April 2021), the APP balance will be applied to 25% of claims for services provided to Medicare beneficiaries. As of June 30, 2022 and 2021, the APP balance of \$0 and \$6,973, respectively, is included in accounts payable on the consolidated statements of financial position.

MCW has also deferred employment tax deposits and payments of \$9,423 and \$18,830 as of June 30, 2022 and 2021, respectively, under the IRS deferral of employment tax deposits and payments. The program allows MCW to defer deposits of the employer's share of social security tax due and payments of the tax imposed on wages paid during the period from March 27, 2020 to December 31, 2020. Half of the deferred employment taxes was paid in fiscal 2022 and the remaining half will be paid in fiscal 2023. The tax deposits and payments deferred are included in accrued payroll and related liabilities on the consolidated statements of financial position.

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(In thousands)

(23) Financial Responsibility Standards

MCW participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of MCW, which are not otherwise presented in the financial statements or other notes to the financial statements, as of and for the year ended June 30, 2022:

<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
AHW endowments restricted in perpetuity			\$ 290,478	Note 7(e), Endowment Net Asset Classification
Other endowments restricted in perpetuity			146,872	Note 7(e), Endowment Net Asset Classification
Total term endowments with donor restrictions	Primary reserve	\$ 437,350		
Gifts restricted for student loans			9,602	Note 17, Net Assets
Time implied pledges restricted in perpetuity			16,018	Note 17, Net Assets
Total net assets with donor restrictions restricted in perpetuity	Primary reserve	25,620		
AHW endowments restricted by time or purpose			167,784	Note 7(e), Endowment Net Asset Classification
Other endowments restricted by time or purpose			67,236	Note 7(e), Endowment Net Asset Classification
Time implied pledges restricted only for time			41,216	Note 17, Net Assets
Gifts restricted for capital projects, research, scholarship, education and community			30,118	Note 17, Net Assets
Total net assets with donor restrictions other, for purpose or time	Primary reserve	306,354		

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(In thousands)

<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
Froedtert account receivables			47,269	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			16,946	Note 3(a), Related-Party Transactions
Children's Hospital and Health System, Inc. accounts receivable			21,811	Note 3(b), Related-Party Transactions
Total secured and unsecured related party receivables	Primary reserve	86,026		
Froedtert account receivables			47,269	Note 3(a), Related-Party Transactions
F&MCW Community Physicians account receivables			16,946	Note 3(a), Related-Party Transactions
Children's Hospital and Health System, Inc. accounts receivable			21,811	Note 3(b), Related-Party Transactions
Total unsecured related party receivables	Primary reserve Equity	86,026		
Goodwill			1,149	Not otherwise presented
Deferred and capitalized patent costs, net			6,005	Not otherwise presented
Total intangible assets	Equity	7,154		
Long-term debt for the purchase of property plant and equipment	Primary reserve	282,623		Not otherwise presented
Long-term debt not for the purchase of property, plant and equipment or liability greater than asset value	Primary reserve	206,124		Not otherwise presented
Total long-term debt			488,747	Consolidated Statement of Financial Position Consolidated Statement of Operations and Changes in Net Assets
Loss on extinguishment of debt			166	Consolidated Statement of Operations and Changes in Net Assets
Other losses			3,457	
Total nonoperating losses	Primary reserve	3,623		

MEDICAL COLLEGE OF WISCONSIN, INC.

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<u>Required input per standards</u>	<u>Ratio(s) used</u>	<u>Input amount</u>	<u>Amount not used as input on supplementary schedule</u>	<u>Reference</u>
Net investment losses	Primary reserve	209,469		Not otherwise presented
Total nonoperating and net investment losses	Primary reserve	211,148		
Total revenues and net assets released from donor restrictions			1,397,696	Consolidated Statement of Operations and Changes in Net Assets
Add unrealized gain on interest rate swap			7,889	Consolidated Statement of Operations and Changes in Net Assets
Less other investment income			(7,914)	Consolidated Statement of Operations and Changes in Net Assets
Less endowment spendable income			(16,290)	Consolidated Statement of Operations and Changes in Net Assets
Less endowment spendable income released from restrictions			(27,107)	Not otherwise presented
Total operating revenue and other additions (gains)	Net income	1,354,274		Consolidated Statement of Operations and Changes in Net Assets
Nonoperating revenue and other gains		7,889		Not otherwise presented
Investment return appropriated for spending		45,340		Not otherwise presented

(24) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with FASB ASC Topic 855, *Subsequent Events*, MCW evaluated subsequent events after the consolidated statement of financial position date of June 30, 2022 through November 22, 2022, which was the date the consolidated financial statements were available to be issued.

No significant subsequent events were identified other than those previously disclosed.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Supplementary Schedule of Financial Responsibility Data

As of and for the year ended June 30, 2022

(In thousands)

Financial element	Amount reported in financial statements or disclosed under GAAP	Amount used for financial responsibility ratio input	Location in financial statements or related notes
Primary Reserve Ratio: Expendable Net Assets			
Net assets without donor restriction	\$ 1,243,304	—	Consolidated Statement of Financial Position
Net assets with donor restriction	775,655	—	Consolidated Statement of Financial Position
Annuities with donor restrictions	6,058	—	Note 17, Net Assets
Life income funds with donor restrictions	273	—	Note 17, Net Assets
Term endowments with donor restrictions	—	437,350	Note 23, Financial Responsibility Standards
Net assets with donor restrictions: restricted in perpetuity	—	25,620	Note 23, Financial Responsibility Standards
Net assets with donor restrictions: other, for purpose or time	—	306,354	Note 23, Financial Responsibility Standards
Secured and unsecured related party receivables	—	86,026	Note 23, Financial Responsibility Standards
Unsecured related party receivable	—	86,026	Note 23, Financial Responsibility Standards
Property, plant and equipment, net (includes construction in progress and capital leases)	282,623	—	Consolidated Statement of Financial Position – Land, building and equipment, net
Property, plant and equipment – post-implementation with outstanding debt (includes capital leases)	—	282,623	Consolidated Statement of Financial Position – Land, building and equipment, net
Construction in progress	13,233	—	Note 14, Land, Buildings and Equipment, net
Lease right-of-use assets, net	62,322	—	Consolidated Statement of Financial Position
Lease right-of-use assets post-implementation	62,322	—	Consolidated Statement of Financial Position
Intangible assets	—	7,154	Note 23, Financial Responsibility Standards
Post-employment and pension liabilities	3,702	—	Note 18, Employee Benefit Plans – deferred compensation payable
Total long-term debt – for long term purposes	488,747	—	Consolidated Statement of Financial Position
Total long-term debt – for long term purposes post-implementation	—	282,623	Note 23, Financial Responsibility Standards
Lease right-of-use liability	68,845	—	Consolidated Statement of Financial Position
Post-implementation lease right-of-use liabilities	68,845	—	Consolidated Statement of Financial Position
Primary Reserve Ratio: Total Expenses and Losses			
Total expenses without donor restrictions	\$ 1,357,158	—	Consolidated Statement of Operations and Changes in Net Assets
Non-operating and net investment losses	—	211,148	Note 23, Financial Responsibility Standards
Net investment losses	—	207,525	Note 23, Financial Responsibility Standards
Other losses	—	3,623	Note 23, Financial Responsibility Standards
Equity Ratio: Modified Net Assets			
Net assets without donor restriction	\$ 1,243,304	—	Consolidated Statement of Financial Position
Net assets with donor restriction	775,655	—	Consolidated Statement of Financial Position
Intangible assets	—	7,154	Note 23, Financial Responsibility Standards
Unsecured related party receivable	—	86,026	Note 23, Financial Responsibility Standards
Equity Ratio: Modified Assets			
Total assets	\$ 2,911,550	—	Consolidated Statement of Financial Position
Intangible assets	—	7,154	Note 23, Financial Responsibility Standards
Unsecured related party receivable	—	86,026	Note 23, Financial Responsibility Standards
Net Income Ratio: Change in Net Assets Without Donor Restrictions			
Change in net assets without donor restrictions	\$ (215,975)	—	Consolidated Statement of Operations and Changes in Net Assets
Net Income Ratio: Total Revenues and Gains			
Total operating revenue and other additions (gains)	\$ —	1,352,331	Note 23, Financial Responsibility Standards
Investment return appropriated for spending	—	45,340	Note 23, Financial Responsibility Standards
Nonoperating revenue and other gains	—	7,889	Note 23, Financial Responsibility Standards

See accompanying independent auditors' report.

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Major federal programs				
Student Financial Assistance Cluster (notes 3 and 5)				
U.S. Department of Education			\$	
Federal Perkins Loan Program	84.038	—	—	2,099,430
Federal Direct Loan Program	84.268	—	—	49,060,922
Total U.S. Department of Education	—	—	—	51,160,352
U.S. Department of Health and Human Services				
Health Professions Student Loans	93.342	—	—	823,017
Federal Primary Care Loans	93.342	—	—	7,532,536
U.S. Department of Health and Human Services	—	—	—	8,355,553
Total Student Financial Assistance Cluster	—	—	—	59,515,905
U.S. Department of the Treasury				
COVID-19 State of Wisconsin	21.019	N/A	—	133,494
U.S. Department of Health and Human Services				
Health Resources and Services Administration (HRSA)				
COVID-19 Provider Relief Fund	93.498	—	—	33,077,427
Total major federal programs	—	—	—	92,726,826
Nonmajor federal programs				
Research and Development Cluster				
U.S. Department of Agriculture				
National Institute of Food and Agriculture	10.310	—	—	46,683
U.S. Department of Defense				
U.S. Army Medical Command	12.420	—	366,360	3,238,665
Children's Hospital of Boston	12.RD	Various	—	8,926
Christopher & Dana Reeve Foundation	12.RD	CTN2-2021 (SK)	—	12,126
Indiana University	12.RD	Various	11,249	329,238
InnoVital Systems, Inc.	12.RD	S208-03-WI-01	—	27,134
Medical Technology Enterprise Consortium	12.RD	2021-532	247,873	441,397
National Trauma Institute	12.RD	NTI-CLOTT17-06	—	9,479
Oklahoma University Health Science Center	12.RD	RS20201654-01	—	76,642
Paxauris	12.RD	Various	—	63,254
Prevent Biometrics, Inc.	12.RD	N/A	—	32,480
Southwest Research Institute	12.RD	L99043RI	—	173,406
University of California-San Francisco	12.RD	Various	—	261,893
University of Colorado at Denver	12.RD	FY18.794.019	—	9,827
University of North Carolina at Chapel Hill	12.RD	5119035	—	27,291
Total U.S. Army Medical Command	—	—	625,482	4,711,758
U.S. Army Materiel Command	12.431	—	32,811	513,775
Department of the Navy				
Fundacion Oceanografic de la Comunitat Valenciana	12.RD	GRANT12802991	—	37,054
L-3 Applied Technologies Inc	12.RD	82SC17001	—	48,883
National Marrow Donor Program	12.RD	Various	—	328,807
Total Department of the Navy	—	—	—	414,744
Uniformed Services University of the Health Sciences				
Indiana University	12.RD	IN-4486955-MCW	—	233,833
Total U.S. Department of Defense	—	—	658,293	5,874,110
U.S. Department of Justice				
Bureau of Justice Assistance	16.DOJ	—	—	84,302
Bureau of Justice Assistance	16.817	—	—	29,655
Institute for Intergovernmental Research	16.RD	2020-COAP-0003	—	59,318
Milwaukee County Department of Health and Human Services	16.RD	HD19-032019-A	—	39,750
Milwaukee County Medical Examiner	16.RD	N/A	—	287,369
State of Wisconsin	16.RD	Various	—	137,320
West Allis Fire Department	16.RD	N/A	—	12,485
West Allis Health Department	16.RD	2018-AR-BX-K106	61,720	246,830
Total U.S. Department of Justice	—	—	61,720	897,029
U.S. Department of Transportation				
Federal Aviation Administration	20.108	—	—	32,517
National Highway Traffic Safety Administration (NHTSA)	20.DOT	—	—	801,245
Total U.S. Department of Transportation	—	—	—	833,762
National Aeronautics and Space Administration	43.003	—	168,375	596,291
National Endowment for the Humanities	45.162	—	—	38,675
National Science Foundation	47.049	—	—	61,998
COVID-19 National Science Foundation	47.074	—	—	1,696
National Science Foundation	47.075	—	—	113,242
National Science Foundation	47.076	—	—	17,629
3Derm	47.RD	002	—	3
Marquette University	47.RD	2257-00001-01-01	—	2,998
University of Wisconsin-Milwaukee	47.RD	203405433	—	24,421
Vasognosis, Inc.	47.RD	N/A	—	(7,263)
Total National Science Foundation	—	—	—	214,724
U.S. Department of Veterans Affairs	64.VA	—	—	1,236,220
Wisconsin Corporation for Biomedical Research	64.RD	PO Number 22-11	—	73,465
Total U.S. Department of Veterans Affairs	—	—	—	1,309,685
U.S. Department of Health and Human Services				
Agency for Healthcare Research and Quality				
Mayo Clinic Rochester	93.RD	MED-230704-01, PO 66109532	—	(188)
University of Wisconsin-Madison	93.RD	Various	—	168,128
Total Agency for Healthcare Research and Quality	—	—	—	167,940
Centers for Disease Control and Prevention	93.CDC	—	8,700	180,199
Centers for Disease Control and Prevention	93.080	—	1,351	181,092
Centers for Disease Control and Prevention	93.136	—	249,467	447,204
American Public Health Association	93.RD	N/A	—	93,876
Association of State and Territorial Health Officials	93.RD	N/A	—	2,587
Children's Hospital of Wisconsin	93.RD	U01DD001239	—	12,791
Eastern Virginia Medical School	93.RD	S270151-28	—	5,129
Northwestern University	93.RD	60056845 MCW	—	54,497
State of Wisconsin	93.RD	Various	—	272,531
COVID-19 The Task Force for Global Health, Inc.	93.RD	N/A	—	84,636
Total Centers for Disease Control and Prevention	—	—	259,518	1,334,542

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Centers for Medicare and Medicaid Services				
New York University	93.RD	PO# M210419345	\$ —	6,079
State of Wisconsin	93.RD	435400-G19-GrMedEdRes-00	—	591,262
Total Centers for Medicare and Medicaid Services	93.RD	—	—	597,341
Administration for Community Living				
Marquette University	93.RD	002069-01-01	—	84,605
Medical University of South Carolina	93.RD	A00-3837-S001	—	28,747
University of Wisconsin-Milwaukee	93.RD	223405543	—	6,464
Total Administration for Community Living			—	119,816
Food and Drug Administration	93.FDA	—	77	105,644
Applied Research Associates, Inc.	93.RD	PO21-00578; S-003956-02-MCW	—	93,736
New York Medical College	93.RD	Various	—	51,356
University of Colorado at Denver	93.RD	FY21.827.001	—	19,458
Total Food and Drug Administration			77	270,194
Health Resources and Services Administration (HRSA)	93.HRSA	—	2,787,421	5,037,533
Health Resources and Services Administration (HRSA)	93.110	—	—	75,929
Health Resources and Services Administration (HRSA)	93.134	—	—	109,766
Health Resources and Services Administration (HRSA)	93.186	—	—	223,539
Health Resources and Services Administration (HRSA)	93.247	—	—	529,985
Children's Hospital of Wisconsin	93.RD	4500002633	—	4,602
Cincinnati Children's Hospital Medical Center	93.RD	Various	—	235,407
Immune Deficiency Foundation	93.RD	1800.868	—	62
Mayo Clinic Rochester	93.RD	MCW-268163	—	12,516
University of Buffalo	93.RD	R1293042	—	121,953
University of California-San Francisco	93.RD	12650sc	—	8,674
Total Health Resources and Services Administration (HRSA)			2,787,421	6,359,966
National Institutes of Health (NIH)	93.NIH	—	—	200
National Institutes of Health (NIH)	93.113	—	38,164	185,894
National Institutes of Health (NIH)	93.121	—	—	206,398
National Institutes of Health (NIH)	93.173	—	256,651	927,533
National Institutes of Health (NIH)	93.213	—	—	214,624
National Institutes of Health (NIH)	93.233	—	—	465,647
National Institutes of Health (NIH)	93.242	—	382,397	2,568,389
National Institutes of Health (NIH)	93.279	—	694,547	2,718,505
National Institutes of Health (NIH)	93.286	—	56,945	211,595
National Institutes of Health (NIH)	93.307	—	83,767	1,626,046
COVID-19 National Institutes of Health (NIH)	93.307	—	10,036	452,293
Total Federal assistance listing number 93.307			93,803	2,078,339
National Institutes of Health (NIH)	93.310	—	3,388,850	4,431,096
COVID-19 National Institutes of Health (NIH)	93.310	—	463,418	3,081,632
Total Federal assistance listing number 93.310			3,852,268	7,512,728
National Institutes of Health (NIH)	93.350	—	777,867	5,806,103
COVID-19 National Institutes of Health (NIH)	93.350	—	—	51,516
Total Federal assistance listing number 93.350			777,867	5,857,619
National Institutes of Health (NIH)	93.351	—	—	1,216,399
COVID-19 National Institutes of Health (NIH)	93.351	—	—	42,770
Total Federal assistance listing number 93.351			—	1,259,169
National Institutes of Health (NIH)	93.353	—	832,444	1,633,210
National Institutes of Health (NIH)	93.361	—	165,159	972,233
National Institutes of Health (NIH)	93.393	—	428,122	2,340,874
National Institutes of Health (NIH)	93.394	—	305,572	2,674,810
National Institutes of Health (NIH)	93.395	—	4,636,943	8,694,209
National Institutes of Health (NIH)	93.396	—	11,913	2,325,878
National Institutes of Health (NIH)	93.398	—	3,315	824,033
National Institutes of Health (NIH)	93.837	—	2,734,438	21,761,721
National Institutes of Health (NIH)	93.838	—	68,508	1,818,178
National Institutes of Health (NIH)	93.839	—	8,786,234	14,901,066
National Institutes of Health (NIH)	93.846	—	40,261	156,889
National Institutes of Health (NIH)	93.847	—	1,007,053	10,050,545
National Institutes of Health (NIH)	93.853	—	275,711	5,608,026
National Institutes of Health (NIH)	93.855	—	1,432,769	8,919,643
COVID-19 National Institutes of Health (NIH)	93.855	—	—	176,660
Total Federal assistance listing number 93.855			1,432,769	9,096,303
National Institutes of Health (NIH)	93.859	—	185,476	5,417,912
National Institutes of Health (NIH)	93.865	—	661,125	2,533,126
National Institutes of Health (NIH)	93.866	—	—	933,309
National Institutes of Health (NIH)	93.867	—	687,014	4,260,831
Albany Research Institute, Inc.	93.RD	92.6.02	—	74,666
Alliance NCTN Foundation	93.RD	Various	—	116,278
American University of Beirut	93.RD	R21TW011453MCW2	—	42,062
Arkansas Children's Hospital Research Institute	93.RD	034146-013	—	175
Ascending Hearing Technologies, LLC	93.RD	N/A	—	110
Augusta University	93.RD	Various	—	83,743
Baylor College Of Medicine	93.RD	7000001597	—	61,484
Beckman Research Institute of the City of Hope	93.RD	Various	—	36,730
Board of Regents of the University of Oklahoma	93.RD	Various	968	8,022
Brio Device, LLC	93.RD	Brio09052019(01)	—	503
California Institute of Technology	93.RD	S455213	—	367,919
Childrens Hospital Los Angeles	93.RD	Various	—	23,336
Children's Hospital of Boston	93.RD	GENFD0001891716	—	33,579
Children's Hospital of Philadelphia	93.RD	Various	—	390,574
Children's Mercy Hospitals and Clinics	93.RD	Various	—	22,018
Cleveland Clinic Lerner College of Medicine of CWRU	93.RD	Various	—	91,348
CNMC-Children's Research Institute	93.RD	30004942-07	—	32,719
Columbia University	93.RD	Various	—	188,422
Dignity Health dab St. Joseph's Hospital and Medical Center	93.RD	N/A	—	42,641
Duke University	93.RD	Various	—	350,846
ECOG-ACRIN	93.RD	Various	—	57,750
Emory University	93.RD	Various	—	110,944
Fina BioSolutions	93.RD	N/A	—	7,796
Fred Hutchinson Cancer Research Center	93.RD	Various	—	15,485
Georgetown University	93.RD	424743_GR424741-MCW-P-2	—	113,432
Great Lakes Inter-Tribal Council, Inc	93.RD	N/A	25,000	308,160
H Lee Moffitt Cancer Center & Research	93.RD	10-20664-99-01-G1	—	72,008

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Hospital for Special Surgery	93.RD	E8VWJXMMUG67	—	17,131
Houston Methodist Research Institute	93.RD	Various	—	305,501
iFIT Prosthetics, LLC	93.RD	N/A	—	23,811
Indiana University	93.RD	Various	\$ —	42,061
Innovation Pathways	93.RD	N/A	—	210,828
Institute For Clinical Research, Inc	93.RD	M54-WI-052-1101-3	—	9,495
Jaeb Center for Health Research Inc	93.RD	N/A	—	4,736
Johns Hopkins University	93.RD	Various	—	12,948
Loyola University Medical Center	93.RD	213711-MCW	—	20,435
Marquette University	93.RD	Various	—	545,036
Marshfield Clinic Research Foundation	93.RD	277593-00	—	3,036,343
Massachusetts General Hospital	93.RD	Various	—	7,752
Mayo Clinic Jacksonville	93.RD	MED-235640-03/PO 67829274	—	5,065
Mayo Foundation	93.RD	Mayo Foundation	—	11,433
Medical University of South Carolina	93.RD	Various	—	45,812
Myelo Therapeutics GmbH	93.RD	Various	—	374,019
National Marrow Donor Program	93.RD	Various	—	163,785
Nationwide Children's Hospital	93.RD	Various	—	95,959
New England Research Institutes, Inc.	93.RD	Various	—	191,373
COVID-19 New York University	93.RD	M210435910	—	614
Northwestern University	93.RD	Various	—	22,952
NRG Oncology Foundation, Inc.	93.RD	Various	14,940	87,553
NYU Winthrop Hospital	93.RD	20-00-00-1004085 PO#M220508377	—	117,504
Oregon Health & Science University	93.RD	Various	—	79,742
COVID-19 PPD Development, LP	93.RD	ACTIV-2/A5401	—	2,409
Public Health Institute	93.RD	Various	—	129,301
ReNeurogen LLC	93.RD	N/A	—	669
Rush University Medical Center	93.RD	Various	—	67,899
Rutgers, The State University	93.RD	Subcontract # 1506	—	116,588
The Mind Research Network	93.RD	6010509 SubN5	—	22,599
The Morgridge Institute for Research	93.RD	MIRC-002548	—	30,472
The Ohio State University	93.RD	GR124114 / SPC-1000005307	—	131,768
Thomas Jefferson University	93.RD	080-05001-S33301	—	110,179
Translational Imaging Innovations, Inc.	93.RD	Various	—	142,133
Tufts University School of Medicine	93.RD	HH4091: 100970-00001	—	50,385
University of Alabama at Birmingham	93.RD	Various	—	110,743
University of Arizona	93.RD	Various	—	85,756
University of Arkansas for Medical Sciences	93.RD	Various	—	166,607
University of California Davis	93.RD	A18-0168-S011	—	20,968
University of California-Los Angeles	93.RD	Various	—	238,059
University of California-San Diego	93.RD	KR 704372	—	109,188
University of California-San Francisco	93.RD	Various	—	316,474
University of Chicago	93.RD	Various	—	198,331
University of Chicago Medical Center	93.RD	AWD100391 (SU000000181)	—	(2,315)
University of Cincinnati	93.RD	Various	—	8,053
University of Florida	93.RD	UFDSPO0011952	—	(880)
University of Houston	93.RD	R-22-0105	—	3,013
University of Illinois-Chicago	93.RD	18618	—	14,271
University of Iowa	93.RD	Various	—	2,975
University of Kansas Medical Center Research Institute Inc.	93.RD	GR12331/ZAR00080	—	4,035
University of Maryland	93.RD	3001286-1000009377	—	37,160
University of Michigan	93.RD	Various	—	86,141
COVID-19 University of Michigan	93.RD	SUBK00013692-005	—	85
Total University of Michigan			—	86,226
University of Minnesota	93.RD	Various	—	23,356
University of North Carolina at Chapel Hill	93.RD	Various	—	118,914
University of Pennsylvania	93.RD	Various	—	275,079
University of Pittsburgh	93.RD	Various	—	42,381
University of South Florida	93.RD	Various	—	5,324
University of Texas-Health Science Center at Houston	93.RD	0014326C	—	25,257
University of Utah	93.RD	Various	—	22
University of Virginia	93.RD	Various	—	11,295
University of Washington	93.RD	Various	—	92,316
University of Wisconsin-Madison	93.RD	Various	—	295,743
University of Wisconsin-Milwaukee	93.RD	Various	—	272,196
COVID-19 University of Wisconsin-Milwaukee	93.RD	223405945	—	59,841
Total University of Wisconsin-Milwaukee			—	332,037
Vanderbilt University Medical Center	93.RD	Various	—	177,697
Versiti Wisconsin, Inc.	93.RD	Various	—	202,471
Virginia Commonwealth University	93.RD	FP00007735_SA001	—	36,607
Virginia Polytechnic Institute and State University	93.RD	412636-19844	—	38,263
Washington University in St Louis	93.RD	Various	—	35,908
Wayne State University	93.RD	Various	—	304,970
Wisconsin Corporation for Biomedical Research	93.RD	5018FEDSciINVESTED	—	15,396
Yale University	93.RD	Various	—	3,522
Total National Institutes of Health			28,455,507	132,334,645
Substance Abuse and Mental Health Services Administration				
Northeastern Wisconsin Area Health Education Center	93.RD	H79SP082346	—	61,180
State of Wisconsin	93.RD	Various	—	729,731
Total Substance Abuse and Mental Health Services Administration			—	790,911
Office of Minority Health	93.137	—	12,088	385,734
Office of the Secretary				
Atox Bio Ltd	93.RD	AB103	—	45,581
Janssen Research & Development, LLC	93.RD	C2019003234	—	1,035
University Hospitals Medical Group, Inc.	93.RD	N/A	—	82,021
Total Office of the Secretary			—	128,637
Total U.S. Department of Health and Human Services			31,514,611	142,489,726
Total Research and Development Cluster			32,402,999	152,300,685

THE MEDICAL COLLEGE OF WISCONSIN, INC.
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2022

Federal grantor/pass-through grantor/cluster title	Federal assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Department of Housing and Urban Development Office of Community Planning and Development City of Milwaukee	14.218	C3810CDBG21	\$ —	200,052
U.S. Department of the Treasury State of Wisconsin	21.027	ARPA-MCW-VP-01	—	49,222
U.S. Department of Veterans Affairs	64.034	—	—	37,000
COVID-19 U.S. Department of Education Coronavirus Aid, Relief, and Economic Security Act (CARES)	84.425E	—	—	510,396
COVID-19 U.S. Department of Education Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)	84.425F	—	—	510,395
COVID-19 U.S. Department of Education American Rescue Plan Act (ARP)	84.425N	—	—	21,679
Total U.S. Department of Education			—	1,042,470
U.S. Department of Health and Human Services Centers for Disease Control and Prevention Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc.	93.074	N/A	—	29,664
State of Wisconsin	93.136	155080	—	23,556
State of Wisconsin	93.426	Various	—	34,109
State of Wisconsin	93.940	435100-G22-CDHRSHIV-00	—	2,676
State of Wisconsin	93.977	155027	—	66,872
Total Centers for Disease Control and Prevention			—	156,877
Administration for Children and Families State of Wisconsin	93.092	159354	—	80,486
State of Wisconsin	93.566	Various	—	89,680
COVID-19 State of Wisconsin	93.566	437004-G20-0001509-000-07	—	1,131
Total Federal assistance listing number 93.566			—	90,811
State of Wisconsin	93.576	Various	—	52,388
Total Administration for Children and Families			—	223,685
Health Resources and Services Administration (HRSA) COVID-19 Health Resources and Services Administration (HRSA)	93.153	—	150,928	439,633
	93.153	—	—	6,172
Total Federal assistance listing number 93.153			150,928	445,805
COVID-19 Uninsured Relief Fund State of Wisconsin	93.461	—	—	71,799
Immune Deficiency Foundation	93.110	152018	—	453,451
	93.110	MCW1800.868	—	29,244
Total Federal assistance listing number 93.110			—	482,695
State of Wisconsin	93.917	Various	334,629	1,546,918
COVID-19 State of Wisconsin	93.917	155952	—	668
Total Federal assistance listing number 93.917			334,629	1,547,586
State of Wisconsin	93.994	Various	—	202,854
Total Health Resources and Services Administration (HRSA)			485,557	2,750,739
Centers for Medicare and Medicaid Services State of Wisconsin	93.778	159363	—	6,179
Substance Abuse And Mental Health Services Administration State of Wisconsin	93.243	435500-G21-ProjAware-00	—	61,995
State of Wisconsin	93.959	533167	5,289	229,574
Total Substance Abuse And Mental Health Services Administration			5,289	291,569
Office of the Secretary State of Wisconsin	93.889	435100-G22-WisHosPrep-19	—	61,423
Southeast Wisconsin Healthcare Emergency Readiness Coalition, Inc.	93.889	N/A	—	48,860
Total Office of the Secretary			—	110,283
Total U.S. Department of Health and Human Services			490,846	3,539,332
Agency For International Development Consortium of Universities for Global Health	98.001	0002	—	594
Total nonmajor federal programs			32,893,845	157,169,355
Total expenditures of federal awards			32,893,845	249,896,181
Major state programs Wisconsin Department of Health Services Division of Public Health		435.155201	—	1,500,634
Total major state expenditures			—	1,500,634
Nonmajor state programs Wisconsin Department of Health Services Division of Public Health		435.128010	—	246,504
Division of Public Health		435.128012	—	331,177
Division of Public Health		435.181010	400,002	406,827
Division of Public Health		435.159363	—	80,360
Division of Public Health		435.155202	—	173,137
Division of Public Health		435.155950	—	9,982
Division of Public Health		435.155958	—	52,606
Division of Public Health		435.181004	53,145	53,145
University of Wisconsin-Madison		003L194	—	93,559
University of Wisconsin-Madison		000000935	—	14,174
University of Wisconsin-Madison		0000001730	—	43,452
University of Wisconsin-Madison		MSN0225198	—	10,518
Wisconsin Economic Development Corporation		TIP FY19-24612	—	169,395
Wisconsin Department of Justice Milwaukee County District Attorney's Office		2018-PE-01-15399	—	16,081
Wisconsin Department of Corrections		None	—	100,857
Total nonmajor state expenditures			453,147	1,801,774
Total expenditures of state awards			453,147	3,302,408
Total expenditures of federal awards and state expenditures			\$ 33,346,992	253,198,589

See accompanying independent auditors' report and notes to schedule of expenditures of federal and state awards.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2022

(1) Basis of Presentation

The schedule of expenditures of federal and state awards (the Schedule) includes the federal and state award activity of The Medical College of Wisconsin, Inc. (MCW) under programs of the federal and state governments for the year ended June 30, 2022 and should be read in conjunction with MCW's consolidated financial statements. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines for Wisconsin*.

Federal and state expenditures include all grants, contracts, and similar agreements entered into directly between MCW and agencies and departments of the federal government and all awards to MCW by other governmental entities, not-for-profit organizations, and for-profit organizations pursuant to federal grants, contracts, and similar agreements. The Schedule summarizes expenditures by the following:

- Major and nonmajor federal programs and state expenditures
- Primary federal and state funding agency
- Direct award agreements between MCW and federal granting agencies
- Pass-through federal award agreements between MCW and nonfederal granting agencies
- Direct award agreements between MCW and state granting agencies
- Pass-through state award agreements between MCW and nonstate granting agencies

(a) Federal Major Program Determination

Under Uniform Guidance, tests of compliance with laws and regulations related to specific program requirements are required for each federal award program that is considered a major program for MCW.

Awards to provide financial assistance for research and development activities are combined and considered to be a single program (Research and Development cluster) for major program determination. Also, awards to provide financial assistance to students and loans made during the year under federal government loan programs are combined and considered to be a single program (Student Financial Assistance cluster).

(b) Federal Award Expenditures

Expenditures consist of direct costs and facilities and administrative costs. Direct costs are those that can be easily identified with an individual federally sponsored project. The salary of a principal investigator of a sponsored research project and the materials consumed by the project are examples of direct costs.

Unlike direct costs, facilities and administrative costs cannot be easily identified with an individual sponsored project. Facilities and administrative costs are the costs of services and resources that benefit many sponsored projects as well as non-sponsored projects and activities. Expenses incurred for administration, library, building maintenance, and building and equipment depreciation are examples of facilities and administrative costs.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2022

MCW and federal agencies use a facilities and administrative cost rate to charge facilities and administrative costs to individual sponsored projects. The rate is the result of a number of complex cost allocation procedures that MCW uses to allocate its facilities and administrative costs to both sponsored and non-sponsored activities. The costs allocated to sponsored projects are divided by the direct costs of sponsored projects to arrive at a rate. The U.S. Department of Health and Human Services (DHHS) must approve the rate before MCW can use it to charge facilities and administrative costs to federally sponsored projects. MCW has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

During the year ended June 30, 2022, MCW charged facilities and administrative costs of \$38,048,775 based on predetermined rates approved by DHHS.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Federal Major Programs

Student Financial Assistance Program Cluster

MCW receives awards to make loans to eligible students under certain federal student loan programs, and federally guaranteed loans are issued to the students of MCW through the Department of Education's Direct Loan Program. These loans are considered for purposes of determining whether student financial assistance is a major program under Uniform Guidance; Perkins, Primary Care, and Health Professions Student Loans outstanding at the beginning of the year, loans made during the year, and administrative charges are included in the federal expenditures presented in the Schedule, in addition to Direct Loan Program disbursements. The student financial assistance category does not include programs that provide fellowships or similar awards to students on a competitive basis. Those programs are classified either as research and development or as nonmajor programs.

Provider Relief Fund

The Provider Relief Fund (PRF) program is administered by the Health Resources and Services Administration to support eligible providers during the COVID-19 pandemic and was approved for funding originally under the Coronavirus Aid, Relief and Economic Securities Act. PRF funds were provided to eligible providers to support healthcare related expenses or lost revenues attributable to the Coronavirus without application but rather with terms and conditions. These terms and conditions required acceptance through an online portal. MCW accepted the terms and conditions. The accompanying schedule of expenditures of Federal awards includes PRF funds for Periods 2 and 3 defined as payments received between July 1, 2020 to June 30, 2021.

(4) Research and Development Program Cluster

Research and development programs include those awards that are for basic and applied research and development activities, including all awards issued by the National Institutes of Health. The Uniform Guidance defines research and development as follows: research is the systematic study directed toward

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2022

fuller scientific knowledge or understanding of the subject studied; development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

(5) Federal Government Student Loan Programs

The Perkins, Primary Care, and Health Professions Student Loan Programs are administered directly by MCW, and balances and transactions relating to these programs are included in MCW's consolidated financial statements.

Loans outstanding at the beginning of the year, loans made during the year, and administrative charges are included in the federal expenditures presented in the Schedule. The balance of loans outstanding under the Perkins, Primary Care, and Health Professions Student Loan Programs was \$1,511,692, \$6,711,836, and \$836,802 respectively, at June 30, 2022.

MCW is responsible only for the performance of certain administrative duties with respect to the federally guaranteed Direct Loan Program, and accordingly, these loans are not included in its consolidated financial statements. It is not practical to determine the balance of loans outstanding to students and former students of MCW under these programs at June 30, 2022.

(6) State of Wisconsin Appropriations and Department of Medicaid Services

MCW receives an annual appropriation from the State of Wisconsin to support the training of health professionals in family medicine and practice. The appropriation was \$5,453,145 for the year ended June 30, 2022. MCW receives an annual appropriation from the State of Wisconsin based on a per capita formula for an amount for each Wisconsin resident enrolled at MCW who is paying full tuition. The appropriation was \$1,926,600 for the year ended June 30, 2022. MCW also receives annual appropriations from the State of Wisconsin to support breast and prostate cancer research. MCW expended \$51,702 of the cancer research appropriations during the year ended June 30, 2022. These appropriations and the related expenditures have been excluded from the scope of this audit. The State of Wisconsin statutes mandate that the Legislative Audit Bureau perform an annual audit on the family medicine and practice funds and that the Higher Education Advisory Board review the request for the tuition capitation funds each semester, prior to the release of the funds. MCW must annually report to the legislature and to the governor on the cancer research programs it has conducted. These actions thereby satisfy the state audit requirement.

MCW receives funds from the State of Wisconsin Division of Medicaid Services (Division) to support the General Surgery Resident Training Program and the Central Wisconsin Psychiatry Resident Training Program. The funding was \$306,821 and \$218,066, respectively, for the year ended June 30, 2022. The Division also supports a Child and Adolescent Psychiatry Fellowship Program. The funding was \$127,447 for the year ended June 30, 2022. This funding and the related expenditures have been excluded from the scope of this audit. MCW must annually report to the Division a full accounting of all funds received and expenditures. These actions thereby satisfy the state requirement.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2022

(7) Settlement of State of Wisconsin Department of Health Services Cost Reimbursement Awards

MCW's settlement of State of Wisconsin Department of Health Services (DHS) cost reimbursement awards presented in the Schedule for the year ended June 30, 2022 is summarized as follows:

DHS identification number (CARS profile)	CARS profile name	Award amount	Award period	Expenditures reported to DHS for payment	Total program expenses	Total management and general expense allocated to program	Total allowable costs
128010	Congenital Disorders	\$ 320,918	7/1/21-6/30/22	\$ 320,869	230,061	16,443	246,504
128012	Congenital Disorders 2	330,229	7/1/19-6/30/20	328,425	(187)	—	(187)
128012	Congenital Disorders 2	330,229	7/1/20-6/30/21	304,227	36,106	—	36,106
128012	Congenital Disorders 2	330,229	7/1/21-6/30/22	314,361	287,779	7,479	295,258
150426	1815 Diabetes	19,747	7/1/20-6/30/21	18,812	3,348	870	4,218
150426	1815 Diabetes	22,821	7/1/21-6/30/22	19,461	14,005	3,641	17,646
150427	1815 Heart Disease Prevention	19,747	7/1/20-6/30/21	17,966	65	17	82
150427	1815 Heart Disease Prevention	22,820	7/1/21-6/30/22	18,277	13,066	3,397	16,463
152018	Pediatric Mental Health Care Access	390,000	10/1/20-9/30/21	355,886	83,359	21,674	105,033
152018	Pediatric Mental Health Care Access	313,500	10/1/21-9/30/22	293,152	276,523	71,895	348,418
155027	Infertility Prevention	67,355	1/1/21-12/31/21	67,131	31,231	3,123	34,354
155027	Infertility Prevention	77,000	1/1/22-12/31/22	32,519	29,563	2,956	32,519
155080	Rape Prevention and Education	30,000	2/1/21-1/31/22	30,000	21,415	2,141	23,556
155201	Child Psychiatry Consultation Program GPR	864,500	7/1/19-6/30/20	832,129	(3,309)	—	(3,309)
155201	Child Psychiatry Consultation Program GPR	1,635,000	7/1/20-6/30/21	1,256,013	7,468	(752)	6,716
155201	Child Psychiatry Consultation Program GPR	1,500,000	7/1/21-6/30/22	1,497,796	1,367,664	129,563	1,497,227
155202	School Based Mental Health GPR	175,000	7/1/20-6/30/21	107,005	22	—	22
155202	School Based Mental Health GPR	175,000	7/1/21-6/30/22	173,116	157,468	15,647	173,115
155915	HIV Home/Community Care (Ryan White)	849,395	4/1/19-3/31/20	822,531	(550)	(55)	(605)
155915	HIV Home/Community Care (Ryan White)	1,014,878	4/1/20-3/31/21	988,198	(2,982)	(298)	(3,280)
155915	HIV Home/Community Care (Ryan White)	1,550,862	4/1/21-3/31/22	1,549,997	1,361,609	136,161	1,497,770
155919	HIV Home/Community Care (Ryan White)	535,290	4/1/20-3/31/21	535,292	(5)	(1)	(6)
155950	HIV Care Services	15,000	4/1/21-3/31/22	9,982	9,074	908	9,982
155952	Ryan White HIV COVID	88,962	4/1/20-3/31/21	88,960	607	61	668
155958	HIV Prevention Targeted	155,000	1/1/21-12/31/21	154,922	97,255	9,726	106,981
155958	HIV Prevention Targeted	210,000	1/1/22-12/31/22	92,891	84,446	8,445	92,891
155959	HIV Demonstration Project	120,000	1/1/20-12/31/20	101,866	(427)	(43)	(470)
155991	Ryan White Minority AIDS Initiative	53,044	4/1/21-3/31/22	53,039	48,217	4,822	53,039
159354	Personal Responsibility Educational Program-PREP	63,750	10/1/20-9/30/21	63,278	20,853	2,085	22,938
159354	Personal Responsibility Educational Program-PREP	90,000	10/1/21-9/30/22	57,548	52,316	5,232	57,548
159363	Adolescent Pregnancy	80,620	1/1/20-12/31/20	80,620	(8)	(1)	(9)
159363	Adolescent Pregnancy	80,620	1/1/21-12/31/21	80,618	45,371	4,537	49,908
159363	Adolescent Pregnancy	80,620	1/1/22-12/31/22	36,640	29,079	7,561	36,640
181004	Tobacco Prevention and Control Program WI WINS	35,625	7/1/20-6/30/21	34,681	34,681	—	34,681
181004	Tobacco Prevention and Control Program WI WINS	35,625	7/1/21-6/30/22	28,399	18,463	—	18,463
181010	Tobacco Prevention and Control Program Community Intrvns	520,000	7/1/20-6/30/21	493,272	130,070	—	130,070
181010	Tobacco Prevention and Control Program Community Intrvns	509,000	7/1/21-6/30/22	349,966	276,136	621	276,757
531284	Opioid Treatment Program Expansion SOR 2	415,923	10/1/21-9/30/22	81,986	56,935	25,051	81,986
533130	Opioid Treatment Development	883,002	10/1/20-9/30/21	849,935	441,117	194,092	635,209
533167	Substance Abuse Prevention and Treatment Block Grant Prevention Projs	348,026	10/1/21-9/30/22	229,574	160,739	68,835	229,574
				<u>\$ 12,771,340</u>	<u>5,418,643</u>	<u>745,833</u>	<u>6,164,476</u>



KPMG LLP
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**Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Trustees
The Medical College of Wisconsin, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Medical College of Wisconsin, Inc. (MCW), which comprise MCW's consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 22, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MCW's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MCW's internal control. Accordingly, we do not express an opinion on the effectiveness of MCW's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether MCW's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



MCW's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the MCW's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. MCW's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Milwaukee, Wisconsin
November 22, 2022



KPMG LLP
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Independent Auditors' Report on Compliance for Each Major Federal Program and State Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and Report on Schedule of Expenditures of State Awards as Required by the State Single Audit Guidelines

The Board of Trustees
The Medical College of Wisconsin, Inc.:

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited The Medical College of Wisconsin, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and the *State Single Audit Guidelines for Wisconsin* that could have a direct and material effect on each of The Medical College of Wisconsin, Inc.'s major federal and state programs for the year ended June 30, 2022. The Medical College of Wisconsin, Inc.'s major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, The Medical College of Wisconsin, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *State Single Audit Guidelines for Wisconsin*. Our responsibilities under those standards, the Uniform Guidance, and *State Single Audit Guidelines for Wisconsin* are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of The Medical College of Wisconsin, Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of The Medical College of Wisconsin, Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to The Medical College of Wisconsin, Inc.'s federal and state programs.



Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on The Medical College of Wisconsin, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about The Medical College of Wisconsin, Inc.'s compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and the *State Single Audit Guidelines for Wisconsin* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding The Medical College of Wisconsin, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of The Medical College of Wisconsin, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin*, but not for the purpose of expressing an opinion on the effectiveness of The Medical College of Wisconsin, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal and state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of



compliance requirement of a federal and state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2022-02 and 2022-03, to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on The Medical College of Wisconsin, Inc.'s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Medical College of Wisconsin, Inc. is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Medical College of Wisconsin, Inc.'s responses and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Report on Schedule of Expenditures of State Awards as Required by the State Single Audit Guidelines

We have audited the consolidated financial statements of The Medical College of Wisconsin, Inc. as of and for the year ended June 30, 2022, and have issued our report thereon dated November 22, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the *State Single Audit Guidelines for Wisconsin* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal and state awards and the schedule of expenditures of state awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Milwaukee, Wisconsin
February 17, 2023

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

(1) Summary of Auditors' Results

Financial Statements

- A. Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- B. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
- Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- C. Noncompliance material to the consolidated financial statements: **No**

Federal and State Awards

- D. Internal control deficiencies over major programs disclosed by the audit:
- Material weaknesses: **No**
 - Significant deficiencies: **Yes**
- E. Type of report issued on compliance for major programs: **Unmodified**
- F. Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**
- G. Major federal programs:
- Program names:**
Student Financial Aid Cluster – Various CFDA Numbers
Provider Relief Funds – 93.498
- H. Major state programs:
- Program names:**
Division of Public Health – Child Psychiatry Consultation Program – State ID Number 435.155201
- I. Dollar threshold used to distinguish between Type A and Type B programs: *Federal Awards* – **\$3,000,000**; *State Awards* – **\$250,000**
- J. Auditee qualified as low risk auditee: Federal: **Yes**; State: **Yes**

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

Finding 2022-01 Design of billing screen

Condition Found

MCW did not properly activate an option on one screen in one of the professional billing modules within their EPIC billing system resulting in certain services inadvertently being overbilled.

Recommendation

It is recommended that the additional billing option be activated and that controls be reevaluated to ensure the completeness and accuracy of future billing system changes. In addition, measures should be taken to ensure payors are properly notified and repaid within guidelines.

Management's response

Management noted this issue to the auditors as a result of its compliance program. Management agrees with the finding and has enhanced procedures, standardized protocols, provided education, and updated the system with the option being activated to address the accuracy of future billings for this area. Additional procedures were performed to understand the overall impact to payors and to remediate as necessary.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2022-02 General Information Technology Controls

Federal Agency: U.S. Department of Education
Program Name: Student Financial Aid Cluster
CFDA Number: Various
Grant Identification Number: Various
Grant Award Period: July 1, 2021 through June 30, 2022

Criteria

The 2 CFR Section 200.303 requires that non-federal entities receiving federal awards establish and maintain internal control over the federal awards that provides reasonable assurance that the non-federal entity is managing the federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards.

Condition Found

During test work performed over the Student Financial Aid Cluster, we noted that within the student information system (the system), certain general information technology controls surrounding change management and user access appeared to be missing or ineffectively designed. Specifically, users with certain administrative access rights have access to the underlying source code of the system and could implement changes directly in the system. There were no monitoring controls over these accounts regarding source code changes. In addition, the password to certain administrative accounts that are used to provision/de-provision user access is not routinely changed, and thus could result in employees with inappropriate access.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Cause

A new student information system was implemented resulting in controls which previously were manual in nature, being replaced with automated controls within the system. As automated control reliance on the system increased, monitoring of system changes and policies surrounding access to administrator and super user accounts were not adequately considered or developed consistent with overall information technology policies and procedures in place at MCW.

Effect

If controls surrounding change management and user access are ineffectively designed, student financial aid may be disbursed in the incorrect amount or to a student who does not meet the eligibility requirements as stated in the Compliance Supplement.

Questioned Costs

None

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample

Repeat Finding

Yes

Recommendation

We recommend MCW implement policies and procedures over monitoring of student financial aid system changes and user access.

Management's Response

While manual controls mitigated the disbursement of an incorrect amount or disbursement to a student who does not meet the eligibility requirements, MCW concurs and has put significant effort into adding additional change management and user access controls to the student information system.

As stated above, these conditions occurred when MCW changed student information systems and began relying more heavily on automated controls within the student information system, instead of solely relying on manual controls outside of the system. Two areas that needed to be addressed were related to general information technology controls:

1. Users with certain administrative access rights have access to the underlying source code of the system and lack monitoring controls over these accounts regarding source code changes.
2. Password requirements for certain administrative accounts were not routinely changed.

As of May 10, 2022, MCW implemented controls to address the matters noted above.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

(4) Findings and Questioned Costs Relating to State Awards

Finding 2022-03 Subrecipient Monitoring

State Agency: Division of Public Health
Program Name: Tobacco Prevention and Control Program
Grant Identification Number: 435.181010
Grant Award Period: July 1, 2021 – June 30, 2022

Criteria

The State Single Audit Guidelines of Wisconsin implement the federal audit requirements in the Federal CFR Part 200 subpart F “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards” for certain state programs and federal programs passed through state agencies.

Per 2 CFR 200.331 a pass-through entity (PTE) must:

Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR section 200.332(b)). This evaluation of risk may include consideration of such factors as the following:

- The subrecipient’s prior experience with the same or similar subawards;
- The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR Part 200, Subpart F, and the extent to which the same or similar subaward has been audited as a major program;
- Whether the subrecipient has new personnel or new or substantially changed systems; and
- The extent and results of federal awarding agency monitoring (e.g., if the subrecipient also receives federal awards directly from a federal awarding agency).

Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR sections 200.332(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following:

- Reviewing financial and programmatic (performance and special reports) required by the PTE.
- Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
- Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Condition Found

During test work performed over the Tobacco Prevention and Control Program award, we noted the policies and procedures in effect during the fiscal year over subrecipient monitoring of state awards did not include risk assessment as noted in the above criteria and within the Compliance Supplement. As such, the control appears to be missing or ineffectively designed.

Cause

The policies and procedures in effect during the fiscal year did not address the requirements pertaining to risk assessment of subrecipients for state awards.

Effect

If there is no procedure in place nor documentation of risk assessment for subrecipients of state awards, the determination of level of monitoring could be incorrect and the grant would not be in compliance with the Compliance Supplement and State Single Audit Guidelines.

Questioned Costs

None

Statistically Valid Sample

The sample was not intended to be, and was not, a statistically valid sample

Repeat Finding

Yes

Recommendation

We recommend the policies and procedures over subrecipient monitoring of state awards be updated in accordance with the Compliance Supplement and State Single Audit Guidelines and that a formal process to document risk assessment, determined level of monitoring, and monitoring to be created.

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Findings and Questioned Costs

Year ended June 30, 2022

Management's Response

As stated above, MCW did not perform preliminary risk assessments on subrecipients of funds awarded through the State of Wisconsin Tobacco Prevention and Control Program. Partial monitoring of the subrecipients of this award was performed by reviewing invoices and programmatic reports.

As of March 23, 2022, MCW implemented procedures to formally document preliminary risk assessment on subrecipients for these awards.

(5) Other Issues

- A. Does the auditors' report or notes to the financial statements include disclosure with regard to substantial doubt as to the auditees' ability to continue as a going concern? **No**
- B. Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiencies, management letter comment, excess revenue, or excess reserve) related to grants/contract with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*: **Yes**
- C. Was a management letter or other document conveying audit comments issued as a result of this audit? **No**
- D. Date of Report: February 17, 2023

THE MEDICAL COLLEGE OF WISCONSIN, INC.

Schedule of Prior Year Findings

Year ended June 30, 2022

Finding Number:2021-01 General Information Technology Controls

Program Name: Student Financial Aid Cluster

CFDA Number: Various

Corrective Action

Corrective action was taken as of May 10, 2022.

Finding Number:Finding 2021-02 Payroll Costs

Program Name: Coronavirus Relief Fund

CFDA Number: 21.019

Corrective Action

Corrective action was taken as of June 27, 2022.



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Department of Finance

The Medical College of Wisconsin, inc.
EIN #390806261

Audit in Accordance with Uniform Guidance: Corrective Action Plan

Year Ended June 30, 2022

Finding Number: 2022-01 Design of billing screen

Contact Person: Pamela Stanick, Vice President of Finance and Treasury

Corrective Action: Effective February 15, 2023, MCW enhanced procedures, standardized protocols, provided education and updated the system with the option being activated to address the accuracy of future billings in this area. Management also ensured all controls relating to the design of the billing screen are effectively designed to ensure compliance with regulations and are operating effectively.

Date of Completion: February 15, 2023

Finding Number: 2022-02 General Information Technology Controls

Contact Person: Pamela Stanick, Vice President of Finance and Treasury

Corrective Action: Effective May 10, 2022, MCW ensures that all controls relating to student information systems are effectively designed to ensure compliance with regulations for federal funding and are operating effectively.

Date of Completion: May 10, 2022

Finding Number: 2022-03 Subrecipient Monitoring

Contact Person: Pamela Stanick, Vice President of Finance and Treasury

Corrective Action: Effective March 23, 2022, MCW ensures that all controls relating to subrecipient monitoring of state awards are in accordance with the Compliance Supplement and State Single Audit Guidelines, that a formal process is created to document risk assessment and determine the level of monitoring, and that these controls are operating effectively.

Date of Completion: March 23, 2022

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